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AtCor Medical Holdings Limited (ACG)

Speculative Buy

Initiating Coverage; Valuation Metrics Too Attractive to Ignore

\$0.05

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Key Points

AtCor Medical markets and sells the worlds only FDA cleared device (SphygmoCor[®]) that measures central heart blood pressures non-invasively.

SphygmoCor[®] is marketed and sold in all major jurisdictions, either directly or via third party distributors.

Central pressure measurement is 50% more predictive of cardiovascular disease (CVD) than peripheral cuff methods.

Sales/Marketing infrastructure largely installed, cost base expected to remain relatively stable.

Estimated 3 segment global market opportunity of ~US\$2.0b, technology push, though evidence of a market pull.

Summary

Market Capitalisation (M)	\$5.1
Share Price	\$0.05
Price Target	\$0.24
52 Week High	\$0.20
52 Week Low	\$0.05
Av. Monthly Volume (Yr Rolling)(M)	3.5
Cash as at 31/12/07 (M)	\$4.6
Est. Cash Burn Per Quarter (M)	\$1.2
Market Cap.: Cash Ratio	1.1

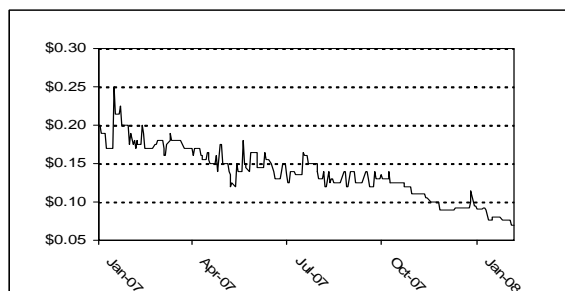
Our View

Key Financials (A\$'000)

Year End	2006	2007	2008
	Actual	Actual	Est.
Product Sales	3,334	4,859	6,803
Total Revenue	4,285	5,736	7,750
COGS	(965)	(1,011)	(1,190)
Gross Margin (%)	71.1%	79.2%	82.5%
Net Op. Rev	(4,158)	(5,251)	(3,880)
EBITDA	(4,720)	(5,917)	(4,212)
EBIT	(4,801)	(6,079)	(4,357)
Reported Profit	(4,005)	(5,183)	(4,116)
Reported EPS (c)	(4.0)	(5.2)	(4.1)
PE Ratio (x)	n/a	n/a	n/a
ROE (%)	-51.6%	-43.6%	-56.0%

- The Company was listed on 16x historic (FY05) revenues with an EV of \$35m in 4Q CY05. The Company has grown its installed base of SphygmoCor[®] devices by 79.5% to 1,346 units in the period FY05-FY07. AtCor now trades on 1.05x FY07A revenues, a 32.9% discount to NTA with an EV of \$0.5m, and 1H08A cash of \$4.6m; representing a significant de-rating of the stock since IPO and in our view an opportunity for investors at current levels.
- We believe the continued build up of significant barriers to entry, including peer review, patent protection and major global outcome trials in CVD provides AtCor with virtual monopoly market opportunities in selected segments. In our view, the pharmaceutical clinical trial market looks particularly attractive for legislative, drug safety and efficacy reasons. We therefore see this as a major revenue driver for the business in FY08E, FY09E coupled with research and early adopter clinician sales in the US and Europe particularly.
- Our view is that AtCor can build a sustainable medium term business based on currently penetrated markets. However, we believe a major de-risking of the Company, its technology and long term prospects will occur once US clinical reimbursement is achieved. In that regard, we believe the Company may file for US category 1 CPT code for arterial tonometry (i.e., the SphygmoCor[®] procedure) during 4Q CY08. Despite no current and specific CPT code, the Company has exhibited product revenue CAGR of 25.1% over the period FY05A-FY07A, with 50% product revenue growth (constant FX) and >80% gross margins guided for FY08E. AtCor currently trades on a forward EV/Sales multiple of 0.1x, a major discount to ASX peer comparables. We are forecasting an FY08E NPAT loss of \$4.1m, reducing to \$2.7m in FY09E. Based on our DCF analysis to FY12E, discounted multiple of earnings and revenue multiples set at a discount to peer comparables, our preferred valuation for AtCor shares of \$0.24 (fully diluted) forms the basis of our price target and initiating Speculative Buy recommendation.

Share Price Graph (A\$)



Investment Thesis

AtCor sells the SphygmoCor® cardiac monitoring device globally.

AtCor Medical Holdings (“**AtCor**”; ASX:ACG) is an Australian-based medical device company that manufactures and sells a device for cardiovascular disease (CVD) assessment and management, known as SphygmoCor®, in all major world markets. **AtCor** has operations in Australia, the United States, and Europe. SphygmoCor® is a unique device that provides doctors and other medical professionals with key information on central aortic pressures and other key heart function parameters without the need for invasive procedures.

The Company listed on the ASX in November 2005, raising \$15 million, principally to build a US direct sales force and associated infrastructure and further initiatives to grow the clinical trials testing market for SphygmoCor®. Historically, the Company has focussed its sales and marketing efforts to the research and clinical trials testing market. For reasons cited in this initiating research report, we believe is on the edge of achieving significantly higher top and bottom line growth via increased use within pharmaceutical clinical trials and more importantly specialist clinician uptake, given the essential sales and distribution infrastructure has now been built.

IPO EV of \$35m, 16x FY05 product revenues.

The Company was listed on 16x historic (FY05A) revenues with an enterprise value (EV) of \$35 million. The Company has grown its installed base of SphygmoCor® devices by 79.5% to 1346 units in the period FY05A-FY07A and product revenue CAGR of 25.1% over the same period. The Company has also delivered sizeable gross margin improvements, with an absolute increase of 7.3% in gross margins from 71.9% in FY05A to 79.2% in FY07A. **AtCor** expects to deliver +80% gross margins in FY08E (82.7% recorded in 1H08A) and 50% revenue growth on pcp (on a constant currency basis).

Now trades at 1.05x FY07 product revenues, EV \$1.1m.

AtCor now trades on 1.05x FY07A revenues with an EV of \$0.5 million and cash as at end 1H08A of \$4.6 million; representing a very significant de-rating of the stock since IPO. In our view, the Company now looks undervalued on all metrics including discounted cash flow (DCF) analysis to FY12E and discounted multiple of earnings. Moreover, **AtCor** looks undervalued when compared to ASX instrumentation plays at a similar stage of development with sales multiples that do not adequately reflect its technology, market and sales outlook (more analysis, below).

Trades at 32.9% discount to NTA.

The Company currently trades at a 32.9% discount to its Net Tangible Asset (NTA) backing of \$0.076 per share, which for a nanocap healthcare stock, even in the context of ASX peer instrumentation plays that typically trade at 2-3x NTA, looks undervalued. As such, we believe **AtCor** represents good value at current levels, particularly given net cash burn is expected to decrease from FY09E commensurate with increased revenue growth and margin expansion. However, we note the Company is yet to record a profit.

Attractive entry at current levels.

Valuation

Discounted earnings multiple, indicates \$0.23-\$0.24 value per share.

Our preferred discounted earnings multiple valuation is based on 18-19x forecast FY11E EPS of 2.1 cents, discounted back 3 periods at 17%. We expect FY11E to be the first full year of profitability for **AtCor** in our model (though we anticipate a profitable 2H10E). Given the product has yet to

Sensitivity Analysis - Discounted FY11E Earnings Multiples

PE Multiple	Discount Rate					
	15%	16%	17%	18%	19%	20%
16	\$0.22	\$0.21	\$0.21	\$0.20	\$0.20	\$0.19
17	\$0.23	\$0.22	\$0.22	\$0.21	\$0.21	\$0.20
18	\$0.24	\$0.24	\$0.23	\$0.23	\$0.22	\$0.21
19	\$0.26	\$0.25	\$0.24	\$0.24	\$0.23	\$0.23
20	\$0.27	\$0.26	\$0.26	\$0.25	\$0.24	\$0.24
21	\$0.28	\$0.28	\$0.27	\$0.26	\$0.26	\$0.25
22	\$0.30	\$0.29	\$0.28	\$0.28	\$0.27	\$0.26

Source: Taylor Collison estimates

be rolled out substantially to clinicians and lacks reimbursement, we believe a discount to the Healthcare Equipment and Supplies Sector (3510) consensus FY08E PE multiple of 20.1x is justified at this time. This valuation metric provides a valuation range of \$0.23-\$0.24 per share.

Discount rate of 17% preferred.

For our DCF analysis, we believe our 17% discount rate (est. beta 1.44, risk free rate 5.8%) is appropriate given the risk profile of the business, as SphygmoCor® is FDA and EMEA cleared and sales are being made to the research and pharmaceutical clinical trial markets, and to early adopter clinicians. Moreover, the company has exhibited product revenue CAGR of 25.1% to FY07A, with 50% growth (constant currency) forecast to FY08E. We have taken a cautious view on terminal growth rates, despite the overall long term growth profile of the business, particularly as central pressures become more important as a clinical predictor of CVD and the Company achieves reimbursement in the US and other jurisdictions, such as the EU. On our base case analysis (see below), the implied value per **AtCor** share is \$0.24.

Implied value per share of \$0.24 on DCF analysis.

AtCor NPV - Summary (\$ '000)	FY08	FY09	FY10	FY11	FY12
	Estimate	Estimate	Estimate	Estimate	Estimate
EBITDA	(4,212)	(2,704)	107	3,242	7,888
Depreciation & Amortisation	145	155	179	202	209
Net Interest	331	76	72	166	432
Tax Expense	(91)	0	0	(973)	(2,366)
Change in NWC	(428)	(913)	894	(1,802)	(1,356)
Free CFs	(4,255)	(3,386)	1,252	835	4,808
Terminal Value					30,268
PV of CFs	(3,933)	(2,893)	914	521	18,691
Total NPV			13,301		
PV Tax Credits			5,746		
cash (1 H08)			4,571		
Implied DCF Value Per Share			\$0.24		
DCF Value Per Share (fully diluted)			\$0.24		

Source: Taylor Collison estimates

We have also conducted a sensitivity analysis, which is highlighted below. Our preferred valuation range of \$0.22-\$0.27 per share is also shown.

Sensitivity Analysis - Discounted Cash Flow

Discount Rate	Terminal Growth Rate					
	0%	1%	2%	3%	4%	5%
10%	\$0.41	\$0.45	\$0.49	\$0.55	\$0.63	\$0.74
11%	\$0.37	\$0.40	\$0.43	\$0.48	\$0.53	\$0.61
12%	\$0.33	\$0.36	\$0.38	\$0.42	\$0.46	\$0.52
13%	\$0.31	\$0.32	\$0.35	\$0.37	\$0.41	\$0.45
14%	\$0.28	\$0.30	\$0.31	\$0.34	\$0.36	\$0.39
15%	\$0.26	\$0.27	\$0.29	\$0.31	\$0.33	\$0.35
16%	\$0.24	\$0.25	\$0.27	\$0.28	\$0.30	\$0.32
17%	\$0.23	\$0.24	\$0.25	\$0.26	\$0.27	\$0.29
18%	\$0.21	\$0.22	\$0.23	\$0.24	\$0.25	\$0.26
19%	\$0.20	\$0.21	\$0.21	\$0.22	\$0.23	\$0.24
20%	\$0.19	\$0.19	\$0.20	\$0.21	\$0.22	\$0.23
21%	\$0.18	\$0.18	\$0.19	\$0.20	\$0.20	\$0.21
22%	\$0.17	\$0.17	\$0.18	\$0.19	\$0.19	\$0.20
23%	\$0.16	\$0.17	\$0.17	\$0.18	\$0.18	\$0.19
24%	\$0.16	\$0.16	\$0.16	\$0.17	\$0.17	\$0.18
25%	\$0.15	\$0.15	\$0.16	\$0.16	\$0.16	\$0.17

Source: Taylor Collison estimates

We have also undertaken an analysis of **AtCor** versus selected ASX listed device/instrumentation companies with products either in late stage development (LBT, NAN) or on the market (BZI, OIL, IMI, UCM, IPD, PLT). Such companies are positioned in markets substantially smaller than **AtCor's** perceived exploitable market opportunity, or in some case be targeting a larger market (see below).

Making the Investment Proposition - Peer Comparables on ASX

Company	Ticker	Market Cap (A\$m)*	EV (\$m)	FY07 Sales (A\$m)	Growth on pcp (%)	EV/Sales (x)	Market Cap/Sales (x)	FY07 Gross Margin (%)	Principal Activity	Est. Market Size (US\$b)
BrainZ Instruments	BZI	6.9	1.9	1.4	97.8	1.3	4.9	69.2	Makes Paediatric Bedside monitoring Instrument (EEG). Distribution deal with GE Healthcare	0.5
Uscom	UCM	11.2	8.2	0.9	-22.1	9.4	12.9	86.0	Manufactures and distributes cardiac output monitors (no partners)	0.6
Labtech Systems	LBT	17.0	9.6	0.0	n/a	n/a	n/a	n/a	Developing an automated microbiological streaking instrument with Biomerieux (\$11.2m license)	5.6
IMI Medical	IMI	15.6	12.1	0.7	30.2	16.4	21.1	n/a	Markets Intelliheart, an approach for early detection of cardiovascular disease to Australian GPs	n/a
Impedimed	IPD	64.5	47.5	1.2	12.5	39.6	53.8	47.0	Manufactures devices to detect and monitor lymphoedema in cancer patients	5.0
Optiscan Imaging	OIL	21.3	17.1	5.7	80.6	3.0	3.7	30.0	OEM Manufacturer and for rigid (Zeiss) and flexible (Pentax) endoscopes.	2.2
Nanosonics	NAN	58.5	30.5	0.0	0.0	n/a	n/a	52.5	Develops decontamination instruments for infection control	3.0
Polartechnics	PLT	31.1	17.4	3.7	-43.8	4.7	8.4	15.4	Manufactures and Sells Truscreen for real time cervical cancer detection and developing Cerviscreen, a self-sampling test for HPV detection	>10.0
AtCor Medical	ACG	5.1	0.5	4.9	45.7	0.1	1.1	79.2	Manufactures and sells Sphgmoor system globally	2.0
AVERAGE		25.7	16.1	2.1	28.7	10.6	15.1	54.2		

*Data as at 9 March 08; Source: IRESS, Company data

Across all market metrics (market cap, EV, EV/sales, market cap/sales) **AtCor** was significantly below peer averages and similarly for company specific metrics including gross margins, product sales and growth on pcp.

Though a relatively small sample size of comparables, we believe the analysis provides a useful basis for providing additional support to our DCF analysis to FY12E and our discounted FY11E earnings multiple, the first full year of expected profitability. Based on peer comparables, and forecast significant revenue growth to FY12E, we believe **AtCor** should trade at 3-4x FY08E product revenues, a significant discount to historic peer averages, providing a valuation range of \$0.20-\$0.27 per share.

Preferred valuation of \$0.24 per share (fully diluted).

Based on our DCF analysis, discounted multiple of earnings and modest revenue multiples set at a discount to peer comparables, we believe fair value for **AtCor** shares is **\$0.20-\$0.27** with our preferred valuation being the approximate mid point of all of our valuation ranges of **\$0.24** which forms the basis of our price target. Our view is that a major de-risking of the Company, its technology and long term prospects will occur once US clinical reimbursement is achieved. We remain hopeful, based on our analysis (below) that the Company will seek reimbursement in the US in late CY08.

Business Overview

Measures central pressure at the heart, non-invasively.

AtCor has developed the motto “*The Right Technology at the Right Time*” – for its technology offering called SphygmoCor[®]. The device is the only US FDA cleared device to measure central blood pressures at the heart and provide indices of arterial stiffness, non-invasively. While other technologies purport to offer similar benefits to SphygmoCor[®], in our view the technology is in a unique position to capture a significant, albeit developing, share of the market.

Broadly speaking, **AtCor** is attempting to create a new paradigm in cardiovascular disease (CVD) risk assessment and management, away from the traditional blood pressure cuff (called a sphygmomanometer) placed around the arm and used for over 100 years in clinical practice. Prior to SphygmoCor[®] the most accurate assessments of central pressures at the heart was only via the administration of an invasive catheter, which is placed into an artery to obtain a direct blood pressure measurement.

AtCor currently has 26 employees, with manufacturing/assembly and corporate head offices in Australia (11 employees), 12 employees in the US (including the CEO and other more senior executive positions) and three employees in Europe mostly in sales/business development type roles. As with other Australian device manufacturers that manufacture locally and generate offshore sales/earnings, the Company is sensitive to currency movements. However, the Company has a natural AUD/USD hedge, as a significant proportion of its cost base is also in USD via its US corporate/sales office accounting for approximately 50% of total operating expenditure.

Sales/marketing infrastructure now largely built.

Advantageously for investors entering the stock at current levels, the sales/marketing infrastructure has been largely built. As such, we expect the Company's cost base to remain relatively well controlled in FY08E and FY09E, with significant future operating leverage available through a combination of revenue and volume growth and high gross margins (+80% for FY08E).

Our analysis of the business, its operating environment and the drivers for ultimate product success lead us to believe that SphygmoCor[®] is the *right technology at the right time* in the pharmaceutical clinical trial testing market, which has changed very substantially over the last 1-2 years in favour of technologies like SphygmoCor[®]. However, as far as the specialist clinician and primary care markets go, we believe SphygmoCor[®] is the *right technology at the (almost) right time*, and will require further clinical evidence and more importantly product reimbursement, both of which we see as possible events during FY09E. However, on a risk v reward basis, the Company looks ideally positioned.

What is SphygmoCor[®]?

As indicated, SphygmoCor[®] is a medical device that enables clinicians to ascertain the central blood pressure (pressure at the heart, or more specifically the pressure at the ascending aorta) of patients. Changes in central pressures can be caused by arterial stiffening, a major cause of CVD. SphygmoCor[®] received FDA clearance in the US in 2002 with CE Mark approval for Europe in

SphygmoCor® is approved in the US, Europe, Japan and elsewhere.

2000. The device is also approved for sale in Australia, Japan, Canada, China, South Korea and India. The device consists of a pressure sensor (tonometer), which is placed over the radial artery, a desktop electronics console, and a dedicated computer on which the software suite operates, providing cardiac information in either real-time (Mx model) or point in time (see below).



The Company offers four different products, all based on the non-invasive assessment of the cardiovascular system, with the same hardware platform and differences in software systems:

- SphygmoCor® Px Aortic BP Waveform Analysis System
- SphygmoCor® Vx Pulse Wave Velocity System
- SphygmoCor® Mx Aortic BP Monitoring System
- SphygmoCor® Hx Heart Rate Variability System

The technology is premised on the arterial pressure pulse, which can be used to provide further information than a standard blood pressure measurement. The elastic and geometric properties of the arteries, along with the functioning of the heart, cause changes in the arterial pressure pulse, such that arterial pressure can be very different to brachial pressure. SphygmoCor® can determine the central aortic pressure waveform non-invasively from the pressure pulse at the radial artery at the forearm.

The core technology underpinning the differentiated product offering of SphygmoCor® is centred on a patented mathematical algorithm producing a transfer function that derives the pressure wave at the ascending aorta through a non-invasive recording of the pressure wave at the radial artery. In our view, it is one of several barriers to entry **AtCor** has built to stop future competitive erosion of its markets. Existing market players make certain assumptions about what is happening centrally (i.e. at the heart), by making measurements peripherally, which has its pitfalls.

SphygmoCor® allows clinicians to develop important and accurate central measurements, aside from central blood pressures in the ascending aorta (driving cerebral blood flow) giving true cardiac measurements including:

CENTRAL PARAMETER MEASURED BY SPHYGMOCOR®	INFORMATION PROVIDED	CARDIOVASCULAR RISK IDENTIFIED
Aortic systolic and diastolic blood pressure	Blood pressure at the heart	Stroke risk
Left ventricular load	The work load on the heart when it is pumping	Heart failure risk
Coronary perfusion pressure	The pressure pushing blood through the coronary arteries	Heart attack risk
Cardiac cycle timing	Timing of the heart pumping cycle	Heart failure, heart attack risk
Cardiac supply/demand index	Potential cardiac supply versus actual physiological demand	Myocardial ischemia risk, exercise tolerance
Arterial stiffness	A measure of the elasticity of the arterial system	Heart failure, stroke and heart attack risk

Source: AtCor prospectus

Why Are Central Pressure Measurements Important?

In short, central pressures are far more predictive of CVD risk (approximately 50%) than brachial (cuff) pressures. As mentioned, prior to the development of SphygmoCor®, a definitive measure of central pressures was only possible via invasive catheterisation of the patient. The result of central measurements provides clinicians with valuable information about the interaction between the heart and blood vessels. The technique complements the conventional blood pressure cuff and provides additional information on cardiac function, allowing for an enhanced ability to change lifestyle and/or provide suitable drug treatment regimes. To place central pressures and CVD into context, it is worth examining the CVD landscape.

Core intellectual property lies in transfer function.

Central pressure measurements 50% more predictive than cuff for CVD.

CVD remains leading cause of death in developed world.

CVD is the leading cause of the death in the developed world. In the US alone, up to 70 million people suffer some form of CVD. The outcomes of CVD are numerous, but include heart failure, heart attacks and stroke. Heart failure (HF) is the leading cause of hospitalisation among Americans over the age of 65 years, affecting greater than 5 million in the US. In the US alone, there are approximately 4.6 million people who have had a stroke with annual incidence of 0.6 million. For heart attacks, there are 16 million US citizens who have had a heart attack with 0.5 million deaths per annum. CVD is also a major cause of death in patients with diabetes and renal disease.

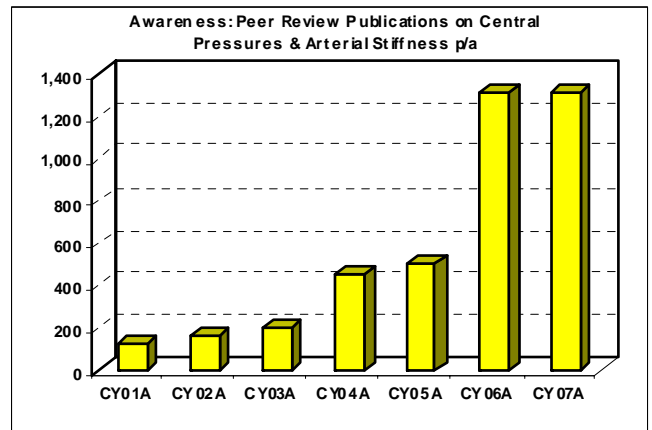
Early intervention the key.

The healthcare costs associated with managing CVD is approaching €169 billion in the EU, A\$4 billion in Australia and US\$394 billion in the US. There is an urgent need to detect CVD earlier and to instigate measures for disease prevention.

Major Clinical Acceptance of SphygmoCor®

Awareness growing on importance of central pressure.

AtCor is expending shareholder's money in clinical trial research associated with heart failure. The premise of the clinical work is to ascertain whether central pressures addressed early and risk factors assessed will allow more effective penetration into clinician markets. Recently, there has been explosive growth in the number of scientific and medical publications citing central pressures and arterial stiffness in CY06 and again in CY07 (see across).

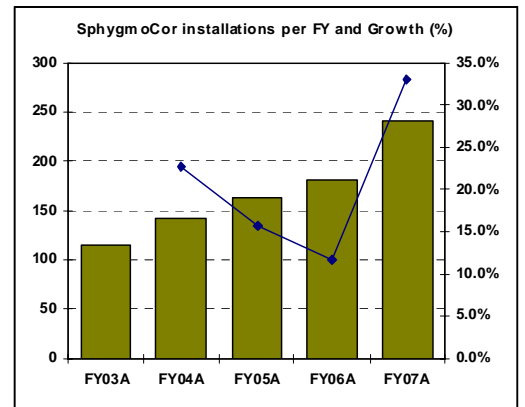


Source: AtCor Medical

The Company is currently sponsoring or is involved with a number of additional clinical trials involving SphygmoCor®, across the world. This is aside from independent investigators examining the utility of SphygmoCor® in a number of clinical settings.

+200 peer reviewed publications.

Over 200 peer-reviewed scientific articles incorporating SphygmoCor® monitoring have been published, many of which demonstrate a correlation between elevated central blood pressure and cardiovascular disease. As at 1Q CY08, over 1,200 SphygmoCor® systems are currently in use around the world at major medical institutions, research institutes and in a number of pharmaceutical clinical trials. Installations have shown CAGR of 20.4% since FY03A (see across).



Source: AtCor Medical

15-20 ongoing studies.

AtCor is focussing its efforts on further controlled clinical outcome studies and data mining activities. This equates to approximately 15-20 ongoing studies at present. The Company remains hopeful that a cluster of further publications may be forthcoming prior to the American Medical Association (AMA) final calendar 2008 application date for a category 1 CPT code, a crucial date for AtCor as it chases US reimbursement for the SphygmoCor® procedure/test (more below).

The clinical focus is on exceptionally high cost patient populations viz; patients with heart failure and those with kidney disease, both chronic conditions with a major healthcare impact. In the heart failure study, the goal is to show that by lowering elevated central pressure in patients with heart failure, the heart's performance can be improved and patients' level of physical independence increased in comparison with patients receiving the current gold standard of care.

In the kidney disease study, the objective is to prove that reducing central blood pressure reduces damaging effects on the kidneys. According to **AtCor**, this will build on the powerful evidence of the importance of central blood pressure assessment previously demonstrated in major studies such as Strong Heart and CAFE/ASCOT (see below) and in our view lead to enhanced clinical adoption by kidney specialists (nephrologists).

The Strong Heart Study

In 3Q CY07, The Strong Heart Study found central pressures more strongly relate to cardiovascular disease and outcome than brachial pressure. This was a major clinical study involving >3,500 patients funded by the National Institutes of Health in the US.

Strong Heart Study is the biggest single validation of AtCor's technology thus far.

The very important findings of the study were that non-invasively determined central pulse pressure (i.e. SphygmoCor[®]) is more strongly related to (1) vascular hypertrophy (2) extent of atherosclerosis and (3) cardiovascular events (e.g. heart attacks, stroke), than brachial blood pressure. Although brachial blood pressure is predictive of cardiovascular outcome, central pressures at the heart tend to better represent the load imposed on the coronary and cerebral arteries, and therefore vascular damage.

50% better predicting CVD outcomes than cuff pressures.

Central pulse pressures were found to be **50%** better 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. At present, further data from the study is being analysed to examine the relationship between central pressure measurement and stroke and renal disease. Clinicians remain confident as the brain and kidneys are also sensitive to increased pressures.

Expert panel recommends use of SphygmoCor[®] in all CV trials.

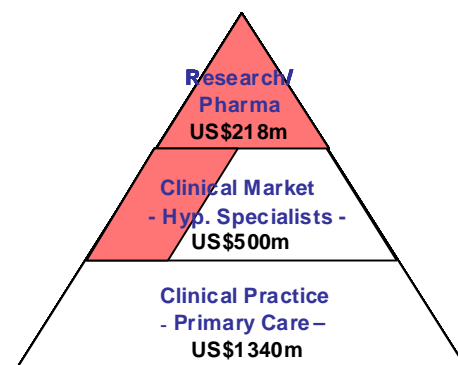
At a recent American Heart Association (AHA) meeting, a panel session on central pressure measurement as a predictor for cardiovascular risk was convened by Heart.org. The panel collectively was not quite ready to recommend central pressure measurements as a routine of clinical practice, but they should be used in cardiovascular clinical trials, particularly those focused on hypertension (see below). The clinicians also indicated central pressures could be used on all trials with cardiovascular end points. They indicated strong clinician endorsement will follow after more investigative studies are conducted. However, enough clinical evidence existed that would facilitate sophisticated hypertension specialists to use in clinical practice. For reasons outlined in this report, we believe **AtCor** is adequately addressing a number of further studies, with contemporaneous independent studies also a key feature.

The European Society of Hypertension and the European Society of Cardiology have also jointly issued guidelines on the management of arterial hypertension in 3Q CY07 that indicated that important drug effects can only be seen with central pressure measurements and importantly for **AtCor**, will not be observed with traditional peripheral cuff measurements. We believe this will lead to enhanced European pharmaceutical clinical trial business and clinician adoption in Europe for **AtCor**.

Multiple Market Opportunities: AtCor's Top Down Strategy

US\$2.0b market opportunity across 3 segments.

AtCor has begun to execute a tiered roll-out strategy for SphygmoCor[®] which we have denoted the pyramid selling strategy, as shown (across). The pyramid represents the US\$ value of each market segment globally (with the US contributing 50% of total), with red shading highlighting **AtCor's** progressive penetration. Globally, **AtCor** believes the market is ultimately worth ~US\$2.0 billion. The Company believes it has addressed approximately US\$199 million or 20% of the estimated total US market for SphygmoCor[®] as highlighted in red and is addressing a comparable portion of the global market.

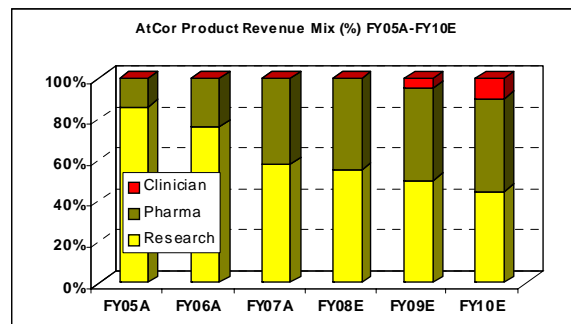


Source: AtCor Medical

From the apex to the base, each individual market segment depends on success in the previous. From our previous discussion (above), in our view the primary driver for use beyond the research/pharma market into the specialist clinical market is

largely dependent on two factors; (1) clinical endorsement and acceptance by way of peer review studies and widespread use and (2) medical reimbursement. In turn, the primary care market (i.e. GPs) will be significantly influenced by widespread use in the specialist market, prior to making purchasing decisions; irrespective of reimbursement. Therefore, from our perspective, **AtCor's** strategy makes sense, particularly in light of major market changes in the nature of pharmaceutical drug development via clinical trials, which **AtCor** is strongly leveraged into.

We believe **AtCor's** product mix will be dominated by research and pharmaceutical clinical trial sales for the next two years (see across). Given the body of clinical evidence that **AtCor** is assimilating around the use of SphygmoCor[®] to measure central pressures and correlation to CVD, we envisage an increased contribution of clinician sales to the product revenue mix, commencing in FY09. Increased uptake will be somewhat dependent on the level and nature of US reimbursement or other coverage the Company and/or clinicians can negotiate.



Source: Taylor Collison estimates

Pharmaceutical Clinical Trials

CAFE study will drive major pharma clinical trial use of SphygmoCor[®].

What has undoubtedly facilitated the building of the clinical trial testing market, which is estimated by **AtCor** to be worth US\$112 million globally of the total research/pharma market, has been a major international outcome sub-study denoted Conduit Artery Function Evaluation (CAFE). This study, part of the 19,257 patient Anglo-Scandinavian Cardiac Outcomes Trial (ASCOT) study, included 2,199 hypertensive patients. The CAFE study results were published in 1Q CY06.

Multiple pharmaceutical partners in place.

The Company has grown its pharmaceutical clinical trial testing business substantially since initiating the strategy in FY06. From zero clinical trial sites in FY05, there are approximately 140 sites in the US actively utilising SphygmoCor[®] in clinical trials. Publicly disclosed end clients of the Company include: GSK, Servier, Pfizer, Bristol Myers Squibb, Genzyme and Boehringer Ingelheim. The Company has received orders worth approximately \$4.5 million since 1Q CY06 (see above).

AtCor Disclosed Pharma Sales

Date	Client	Approx Value (A\$m)
1Q CY06	1x EU	0.3
3Q CY06	N/A (1x US)	1.9
3Q CY07	N/A (1x US, 1x EU)	1.6
3Q CY07	N/A (1x US)	0.7
TOTAL		4.5

Source: AtCor, TC est.

Strong opportunity pipeline growth – conversion likely.

AtCor also stratifies its sales opportunities under management. We believe the majority of the indicated opportunities are potential contracts with pharmaceutical companies for clinical trials, as these represent bulk orders depending on the nature of the trial (Phase 1, 2, 3 or 4), the number of clinical sites and site location. Of the contracts captured in pharma over the past 2 years, on average 30% of the value of the contract **AtCor** signs is for clinical applications support-monitoring and data services; which are recognised as deferred revenue and progressively released to the P&L.

CAFE has had major impact on pharma view of clinical trials.

In that regard, **AtCor's** pipeline grew from US\$1.0 million to US\$2.5 million to Nov 06 (US market), to A\$7.0 million to Mar 07 and as at Nov 07 grew a further 54.3% to A\$10.8 million, globally. While the Company will not publicly disclose the information we estimate the opportunity pipeline now stands at A\$11.0 million. While not contracted future revenues, we believe it is realistic to assume the Company has the capability to execute ~50% of such opportunities, which translates to potential future research/clinical trial revenues of A\$5.5 million.

CAFE/ASCOT – Key Results and Clinical Trial Testing Market Impact

The CAFE study showed that significant cardiovascular drug effects using two different drug regimes, was detected through non invasive central blood pressure assessment (i.e. SphygmoCor[®]), which were not detected by brachial blood pressure measurement. Furthermore, in the CAFE cohort within ASCOT, central pulse pressure was a significant determinant of total cardiovascular and renal events/procedures, which follows nicely with data from the Strong Heart Study.

A further study currently ongoing will provide additional evidence that central pressures may be a better predictor of cardiovascular drug effects than peripheral cuff measures. The NIH funded Treatment of Preserved Cardiac function heart failure with an Aldosterone antagonist (TOPCAT) study will see if adding a drug called spironolactone to a patient's current treatments for heart failure is able to safely improve his/her heart failure. This major study commenced in 1Q CY07.

Key (monopolistic) opportunities in this segment.

The consequences for pharmaceutical companies are clear: blood pressure lowering drugs can have significantly different effects on central arterial blood pressure, despite having a similar impact on peripheral blood pressures.

Independent clinicians have cited the key advantages of SphygmoCor[®] in this market segment as:

1. Identify and explain beneficial effects of cardiovascular drugs, not evident by measuring brachial pressure alone;
2. Identification and mitigation of a drug's central pressure elevating effects in certain patients;
3. May help to differentiate competing drug compounds in clinical development; and
4. Identify study patients at higher risk for cardiovascular events.

Legislation and Drug Safety Issues Will Help

For pharmaceutical companies, we believe the cardiovascular effects of their drugs is vitally important in the wake of safety issues relating to cardiovascular outcomes including the COX-2 inhibitors (Bextra[®], Vioxx[®]), Avandia[®] (GSK) for diabetes and major late stage clinical failures including Pfizer's US\$800 million Phase 3 cholesterol lowering drug torcetrapib.

Using SphygmoCor[®], pharmaceutical companies are now able to ascertain whether drugs that slow heart rate or those that possess an inflammatory response or vasoconstriction may lead to elevated central blood pressure. This would significantly limit medications used to treat more chronic conditions in patients with increased cardiovascular risk.

Cardiovascular testing now required in clinical trials.

At present, the FDA has not mandated for central pressures in clinical trials, though we note the Guidance for Industry s7A: Safety Pharmacology Studies for Human Pharmaceuticals which suggests the "effects of the test substance on the cardiovascular system should be assessed appropriately. Blood pressure, heart rate, and the ECG/EKG should be evaluated." In the post Vioxx[®] world, small molecules now require Phase 1 QTc testing using ECG prior to such drugs entering into Phase 3 clinical trials to determine if an adverse drug reaction increases the QT interval.

AtCor encouraging Reagan-Udall foundation on utility of SphygmoCor[®].

Aside from unequivocal clinical evidence under CAFE, we believe **AtCor's** desire to leverage off the clinical trial testing market has also been aided by The FDA Amendments Act of 2007, which has been recently introduced into US law. Under the legislation, the FDA can require companies to study the risks associated with drugs even after they have been approved for sale when new safety information may have emerged. The agency can then demand changes in product labeling, such as restrictions on use and distribution. The Reagan-Udall Foundation was created to encourage investigation of improved methods of product safety evaluation.

The Foundation will examine unmet needs in the development and evaluation of the safety and effectiveness of drugs, including the incorporation of more sensitive and predictive tools and devices to measure safety. **AtCor** have been actively lobbying US legislators about SphygmoCor[®] and its role in early identification and mitigation of cardiovascular side-effects.

Hypertension Clinical Trials – the Primary Target

Given the findings of CAFE/ASCOT, the use of SphygmoCor[®] in cardiovascular disease indications, such as hypertension, takes on new importance. The previously mentioned expert panel on central pressure measurements indicated that they would have expected a number of drugs to have been discontinued due to no effect on brachial pressures, but could have had significant effects centrally. This potentially introduces a significant opportunity cost for pharmaceutical companies by not using SphygmoCor[®] in trial processes, particularly hypertension clinical trials. We note that data mining activities for both CAFE and Strong Heart continue, and may elucidate further evidence of CV risk tied to increases in central pressures.

In 2006, anti-hypertensive drugs recorded sales of US\$36.6 billion, making the indication one of the largest and most profitable in the pharmaceutical industry. In 2005, 330 million people suffered from hypertension in the US and Europe, which is expected to grow to 1.5 billion worldwide over the next decade.

1,200 studies involving hypertension at present.

We have examined the clinical trial profile of drugs currently being tested in the hypertension indication to more fully understand the opportunity as it relates to **AtCor** and central pressure testing opportunities (see across). When our analysis included “cardiovascular” trials, we received a hit of 9,004 such studies. This highlights the opportunity for **AtCor** beyond hypertension trials, where a component of any one particular trial includes cardiovascular elements.

Hypertension Clinical Trials

Trial Stage	# Trials	% Industry	% gov/other
Phase 1	103	30.1%	69.9%
Phase 2	266	44.0%	56.0%
Phase 3	452	68.6%	31.4%
Phase 4	379	57.3%	42.7%
TOTAL	1200		

Source: clinicaltrials.gov

We have also examined the cardiovascular pipelines of major global pharmaceutical companies; given **AtCor** has traditionally had a sales relationship with the majority of the companies indicated below.

Major global pharma companies have robust cardiovascular pipelines.

Pharmaceutical Majors - Cardiovascular Franchises

Company	Current Drug Portfolio			
	Phase 1	Phase 2	Phase 3	Review/Approved
Pfizer	5	8	2	1
Merck	6	3	1	1
Roche	7	4	0	0
Novartis	2	1	4	2
Sanofi	9	13	4	2
AstraZeneca	3	3	4	1
BMS	n/a	n/a	1	0
GSK	3	2	2	1
J & J	n/a	n/a	1	0

* Inc diabetes trials; Source: Company Reports

In short, we believe the cardiovascular clinical trial testing market, including hypertension studies remains an attractive market segment for **AtCor** to build scientific and clinical data that will support its specialist clinician sales strategy.

Alliance with Encorium Group, Inc.

In 1Q CY07, **AtCor** announced an alliance with Encorium Group, Inc (NASDAQ:ENCO) an international full service contract research organisation (CRO), which according to their last SEC filings recorded 3Q CY07 sales of US\$7.2 million. Encorium Group has a current market capitalisation of US\$46 million. Encorium has performed over 130 cardiovascular studies involving over 40,000 patients at 3,100 international sites.

Evidence of traction with Encorium lacking.

The agreement was meant to facilitate co-marketing of SphygmoCor[®] by Encorium as part of its value-add to end clients. However, we have reviewed recent announcements of contracts with pharmaceutical companies which has indicated the majority of the trials executed since the **AtCor** agreement are not in cardiovascular indications, which are likely to more applicable (at this juncture) for use of SphygmoCor[®]. Therefore, we believe this relationship has had limited uplift in terms of US sales for **AtCor** to date. Moreover, in terms of Encorium's position in the global CRO market, it appears to be a niche player, given the Top 5 CROs control approximately 45% of the market with over 1,100 CROs worldwide according to Research and Markets.

In Summary, we believe **AtCor** will benefit significantly from a series of macro events that will fuel the use of SphygmoCor[®] in pharmaceutical clinical trials due to:

5 key reasons why AtCor can expect uplift in pharma trial revenues.

1. Independent research from scientists and clinicians incorporating SphygmoCor[®] (+200 studies),
2. The CAFE/ASCOT/Strong Heart studies,
3. The European guidelines on hypertension,
4. Recent major drug failures/withdrawals due to cardiovascular side-effects, and
5. Stricter regulatory guidelines requiring drug trials examine cardiovascular effects of new drugs.

Clinical Market – Targeting the Specialists

Early adopter sales one key to specialist success but.....

Further clinical evidence and reimbursement the major success factors.

AtCor believes the US hypertension specialist clinician market is worth up to US\$250 million (US\$500 million globally). **AtCor** medical entered the specialist market in 4Q CY05 with relatively minimum sales to date. While the Company has been making early adopter sales into this market over the last few years, in our view significant adoption will be dependent on further clinical evidence on the use of SphygmoCor® in a range of clinical settings and reimbursement. Given the pricing of SphygmoCor® is approximately A\$20k, a practising clinician will make purchasing/leasing decisions that provide for a benefit to offset the capital cost and thus generate a ROI based on cost per patient, average reimbursement per patient and therefore profit margin.

In due course, we believe the SphygmoCor® test can be performed in a specialist cardiology practice (as an example) by a cardiac sonographer, who is involved in operating sonograms, electrocardiograms (ECG or EKG) and assisting Cardiologists. In that regard, it is possible that no significant additional costs will be incurred by specialist clinicians, aside from the costs of training to use SphygmoCor®. Recent comments by cardiologists have indicated that the ease of use means the test can be administered by technicians or clinicians alike.

Cardiologists & Hypertensive Specialists

Hypertension is a major risk factor for a wide range of CVD outcomes and is typically identified by measuring blood pressure (BP) at the brachial artery. While such a measurement may accurately determine diastolic BP, it does not accurately reflect systolic BP. Because of a distortion effect of systolic BP, blood pressure measured in the brachial artery provides an inaccurate measure of central aortic systolic pressure, and hence the opportunity for SphygmoCor® in these indications, given it is able to measure both systolic and diastolic pressures at the heart.

In our view, it will be the cardiologists and hypertensive specialists that will provide the bulk of sales revenue for **AtCor** in the specialist market, with ancillary specialists also being targeted (see below). SphygmoCor® is an ideal evaluation tool for hypertensive specialists and cardiologists, as it not only provides information on central pressures, but can aid in the management of Isolated Systolic Hypertension (ISH) the most common form of hypertension in the elderly, caused by stiffening in the aorta or large arteries. The central effects of specific therapy regimes can be assessed far more accurately. The use of SphygmoCor® in a range of other hypertensive disorders is also feasible. We note 42 published scientific papers on the use of SphygmoCor® in hypertension.

Endocrinologists & Nephrologists

Endocrinologist and nephrologists market opportunities.

AtCor believes there is also an opportunity to turn endocrinologists and nephrologists into key adopters of SphygmoCor® into the future. For example, people with diabetes have 2-3 times the risk of CVD or stroke than those who don't have the disease. However, many people with diabetes are unaware of the risk of CVD.

CVS major cause of death in ESRD patients.

For nephrologists, a key outcome study in End Stage Renal Disease (ESRD) patients on dialysis, showed that central measurements assessed by SphygmoCor® Pulse Wave Analysis, to be independent predictors of morbidity and mortality in ESRD patients on haemodialysis. This provides practising clinicians with the tools to more adequately assess, at an earlier stage, CVD risk. People with chronic kidney disease or renal insufficiency have a high risk of stroke or heart attacks (3-30 fold increased risk for chronic patients). CVD is therefore a leading cause of death in these patients.

2-7x increased risk of CVD in diabetes patients.

For endocrinologists, regular blood pressure measurement is required in people with diabetes. More frequent measurement is required during titration of anti-hypertensive therapy. Diabetes Australia recommends: regular blood pressure should be measured every clinic visit, or at least every 6 months, in normotensive people with Type 2 diabetes; blood pressure should be measured at least every 3 months in hypertensive people with diabetes. Patients with type 2 diabetes have a 2-7 times increased risk of CVD versus normals.

AtCor believes SphygmoCor® will provide a useful tool assisting with identification of high risk patients and management of the disease, particularly given aortic stiffness, using pulse wave velocity is an independent predictor of mortality in diabetic patients.

Primary Care Market – General Practitioners (GPs)

GP market will be a challenge.

AtCor will enter this market once adoption by specialists is sufficiently established. In our view, despite **AtCor's** assertions that the market in the US is worth US\$670 million, it will be a challenging market to penetrate and is certainly dependent upon wide spread specialist use/endorsement and reimbursement. However, general practitioners (GPs) do play a major role in the management of risk factors for CVD and the coordination of care for people with chronic cardiac disease.

Widespread specialists use a key driver.

Thus, despite the GP being the conduit between the patient and the specialist, they are dependent on the specialists for adoption of certain technologies in clinical practice. In regards to cardiac testing such as ECG testing, a variety of GP clinics now offer this test, which once upon a time would have only been available in a specialist cardiology clinic or hospital. Echocardiograms are still performed by skilled sonographers / echocardiography technicians or cardiologists in the hospital setting or at specialist clinics. Echo machines can be >US\$100k to purchase, which may explain why they are not widespread in GP practices.

AtCor has not indicated in its business model that as part of its product offering, the Company will provide trained technicians to undertake the testing procedures. We note that in the Australian context, specialist testing clinics are being established focused on heart health and include ECG (and other) cardiac testing, which do not require referral from a specialist. For example, Heart Check is a medical services provider operating 21 clinics in Australia providing an accessible service direct to the public.

Careful patient selection important to preserve reimbursement.

However, given our view that SphygmoCor[®] operates at a level of sophistication akin to routine ECG testing, along with determination/analysis of the results we do envisage the product in GP clinics into the future. However, to preserve the reimbursement benefit, we believe the test will only be offered to high risk patients (as discussed above) in this clinical setting, rather than low risk normal patients, where peripheral cuff measurements will continue to be the mainstay of clinical practice.

AtCor's Direct Sales and Distribution Model

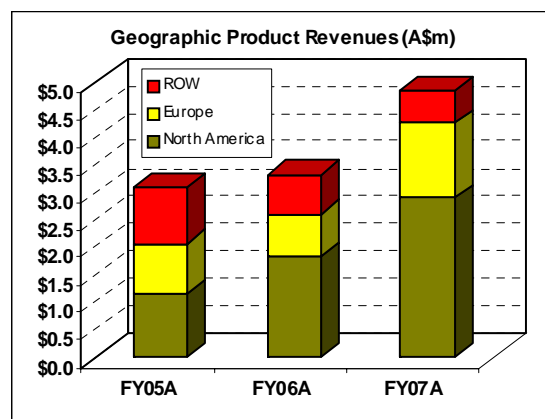
AtCor has traditionally sold the majority of its product through the US and Europe, with a smaller revenue contribution via ROW sales (see across). In FY07, US sales represented 59.6% of total sales, Europe 28.1% and ROW 12.3%.

AtCor has invested heavily in building its own direct sales force in the US, Europe and Australia. However, cognisant that it lacks the financial resources to fully develop a direct sales force across multiple markets and jurisdictions, the Company has also partnered with distributors expert in selling cardiovascular devices/instruments to hospitals and clinics in certain markets. In this regard, **AtCor** has adopted a hybrid selling model. This is particularly true in Europe and Asia (see below).

Direct sales force largely in place.

Hybrid model of direct selling + third party distributors.

As at FY07, **AtCor** had representation in more than 20 European and Asian countries.



Source: AtCor

Such a strategy has not come cheaply, as marketing and selling expenditure from FY05A-FY07A was significantly in excess of product revenues as the Company has sought to develop its major market opportunities.

\$ ('000)	FY05A	FY06A	FY07A
Marketing and Sales Expense	3,248	4,801	5,918
% of Product Revenues	104.6%	144.0%	121.8%

Hybrid model looks the most bankable.

Despite the significant expenditure versus a strict OEM/distribution model with global majors or regional distributors, we believe this is our preferred model for nanocap Australian healthcare device/instrumentation plays looking to leverage off their technology, provided they have access to the requisite capital, as historically **AtCor** did. We believe too often the partner of choice for aspiring device/instrumentation businesses results in disappointing results.

We note with interest the exclusive partnership of BrainZ Instruments (ASX:BZI) with GE Healthcare (distribution) and Optiscan Imaging (ASX:OIL) with Pentax (development and commercialisation agreement, OEM). Both partnerships have seen disappointing sales of the technology developer's products over time. We believe this can be attributable, in part, to such products getting "lost in the noise" of multiple high end medical equipment with much greater commission rates for sales people. Portland orthopaedics (ASX:PLD) is another example of a partner underperforming or terminating the distribution agreement via a change in focus or business structure.

Similarly, Ellex Medical Lasers (ASX:ELX) faced major issues with its OEM relationship with two leading ophthalmic companies, while sales of its own brand through third party distributors remained strong. This ultimately led to the Company abandoning an OEM model to branded products with its own sales force. The Company also moved to a direct sales and distribution model in Japan. The Company has seen a sizeable re-rating in its market value with this strategy.

North American Sales Strategy

Direct sales force built in the US.

In the US, **AtCor** does not sell through distributors, but rather has built an internal sales and marketing capability that has developed a multi-prong approach of targeting key opinion leader sites nationwide, selling directly to US specialists and engaging major pharmaceutical or biotechnology companies to embed central pressure measurements using SphygmoCor® in human clinical trials to assess both cardiovascular risk, but also specific drug effects not detectable using peripheral cuff measurements.

Installed base grown 55.1% in 9 months to Nov 07.

AtCor's installed base has grown by 55.1% from Mar 07 (276 units) to Nov 07 (428 units), underpinning the business model. **AtCor** has invested significantly in growing the US business, as the CEO is now based in Illinois and 12 employees (marketing, sales, clinical/scientific affairs and reimbursement development) serve that market. For clinical trials, **AtCor** provides purchased or leased SphygmoCor® systems, centralised and on-site training for clinical investigators and staff, and ongoing data quality assurance and management services.

European Sales Strategy

Direct sales model for French, German markets.

In Europe, **AtCor** has elected for a hybrid sales model that involves both direct sales representatives for the German and French markets and selling through national distributors in other major Western European markets, including the UK. The Company's largest distributor is ScanMed Group which retains rights for UK, Sweden, Norway and Denmark. In 4Q CY06, the Company appointed a number of additional European distributors for SphygmoCor® in Greece, Spain, Switzerland, Benelux and Portugal.

Third party distribution for other European jurisdictions.

The Company has also established a number of key opinion leader sites in Europe. More recently (early 2Q CY07) the Company signed additional distribution agreements that cover the Czech Republic, Latvia, Lithuania, Poland, Russia and Slovakia in 2Q CY07. We understand that all distributors are now fully trained. We have undertaken an analysis of the major distributors, which is highlighted (below).

AtCor – Distribution Partners

Distributor	Jurisdiction(s)	Comments
ScanMed Medical	UK, Sweden, Norway, Denmark	Founded in 1997, 60+ personnel years of selling experience.
Elemed SA	Greece	Affiliate of Electromedical, which was established in 1978 specialising in medical devices.
Blau Analitica	Spain	n/a
Hemoportugal SA	Portugal	Founded 1982, est sales US\$2-5m.
Admedics AG	Switzerland	Founded in 1985, specialists in field of minimally invasive therapies.

Gepa Med	Austria	n/a
APC Cardiovascular Netherlands	Belgium, Netherlands	Established in 1989, supplier of innovative medical products and equipment.
Almasonic	Bulgaria	n/a
Stapro	Czech Republic, Slovakia	Established in 1990, as a leading supplier of information systems, healthcare technology.
Draeger Medical	Hungary	Part of the global parent, who is one of the world's leading manufacturers of medical equipment.
Vasomeditech	India	Specialise in cardiovascular device distribution.
Vega Spa	Italy	n/a
Interlux	Lithuania, Latvia	n/a
Medical Diagnostic Systems	Poland	n/a
Polyservice, LLC	Russia	n/a

Source: AtCor, Company

20.3% growth in installed European base in 9 months to Nov 07

An experienced executive (ex VP sales and marketing of Abbott Laboratories vascular devices division) has been driving sales in Europe since 1Q CY06. **AtCor** had an installed base in Europe of 444 units as at Mar 07 which had grown as at Nov 07 by 20.3%.

We recently held a conference call with **AtCor's** European Vice President to discuss the Eastern European appointment of distributors and an update on Western Europe operations. Management remains confident of European pharmaceutical company orders through CY08 to support clinical trials. We believe this is in part a response to the European guidelines cited previously in this report. Management also see significant opportunities in Eastern Europe through CY08, particularly in the Ukraine, Poland and Russian markets. **AtCor** sources such deals with pharma companies directly where more hands on service and expertise is required.

Russian approval expected 1Q CY08.

The Company expects Russian registration/approval in 1Q CY08. We believe **AtCor** also anticipates progressively executing on an "embedment" strategy, which will see SphygmoCor[®] utilised across a number of clinical trials within the same pharmaceutical company. Given the relative inflexibility of clinical trial processes, where both qualitative and quantitative measures of safety and efficacy are kept more or less consistent, we believe this will lead to more widespread use of SphygmoCor[®] across all clinical stages, and as ASCOT/CAFE and Strong Heart studies have shown, also in post market surveillance (i.e. Phase 4).

Asia-Pacific Sales Strategy

Though **AtCor** had an installed base in Australia/New Zealand of 218 units and 92 units in Asia as at Mar 07, **AtCor** has invested into this market via appointment of an experienced executive who will assume sales and marketing responsibility in this market. The executive has cardiovascular selling experience in these markets.

Moderate growth in Aust/NZ and Asia.

The strategy appears to be gaining traction in these markets, as we note the installed base has grown as at Nov 07 by 18.8% in Australia/New Zealand and 23.9% in Asia. We understand the growth in Asia appears to be early adopter (key opinion leaders in research institute/clinical) type sales, which again neatly follows **AtCor's** top-down pyramid strategy that is beginning to bear fruit in the US and Europe.

In late CY07, the Company has also executed distribution agreements within the potentially high growth markets of China and India. The incidence of hypertension in China is expected to exceed that observed in the US by 2010, according to the American Heart Association.

China, India opportunities, albeit very modest thus far.

In India, **AtCor** partnered with Vaso-Meditech and in China, Water Front Trading Ltd in 2Q CY07. In India, the Company expects to sell the devices into the private healthcare setting, with private patients essentially paying for the test. However the Company did indicate that the private insurance industry is growing in India, with tax incentives for the middle-class to become insured. In China, **AtCor** will take the opposite view, and leverage SphygmoCor[®] into the public healthcare system, initially via early adopters.

Reimbursement: The Key Long Term Success Factor

Reimbursement remains the key long term success factor.

In our view, the long term success of **AtCor** as a medical device Company is dependent upon third party reimbursement and/or direct patient payment for SphygmoCor[®] testing. We note that technology companies can build a successful product offering in the US market to clinicians without national reimbursement codes, principally via targeting of local coverage (on a state by state basis). This is a strategy that **AtCor** is building in a contingency for; as it believes it can obtain reimbursement locally by utilising existing codes (preliminary evidence indicates this).

Irrespective of reimbursement for clinician use, we do believe that **AtCor** can build a reasonably successful business servicing the pharmaceutical clinical trial market, particularly if central pressure measurements outside of cardiovascular indications as part of the clinical trial process and risk mitigation become more main stream, in light of recent market developments (discussed above).

Major financial outperformance hinges on reimbursement.

However, in the long term, we believe major financial outperformance and major market re-rating will depend on the availability of national reimbursement, if any, for the cost of **AtCor's** products and services from government health administration authorities, private health coverage insurers and other payer organisations (for the all important US market).

If **AtCor** is unable to achieve reimbursement from third parties in any form, their specialist clinician/ primary GP markets will (collectively, 89.5% of their US market estimates) depend upon direct patient payment for the test. This will reduce the actual market opportunity in our view, as only a certain percentage of patients will be able to afford the test without reimbursement.

What Happened in Australia?

MSAC knocked back reimbursement in 2Q CY06.

On June 6 2006, the Medical Services Advisory Committee (MSAC) in Australia rejected **AtCor's** application for SphygmoCor[®] to receive public funds. MSAC indicated at the time that "insufficient evidence pertaining to peripheral arterial tonometry with ascending aortic waveform analysis using the SphygmoCor[®] system". MSAC recommended that "public funding should not be supported at this time for this procedure". At the time, the Company commented that MSAC does tend to reject first time applications, and the application was probably too broad in respect of patient groups to make it palatable to government, given potential size of reimbursement payments.

Possible re-file in 4Q CY08.

We note since the filing was rejected, the results of the Strong Heart study (3Q CY07) have been released, the installed base has increased and further independent clinical studies reported. Management has indicated to us that they may consider submitting an application to MSAC before the end of CY08.

Overview of the US Healthcare System and Reimbursement

We have had discussions with management on reimbursement practices and procedures for the all important US market, along with the US Healthcare Market as it pertains to SphygmoCor[®]. Given the complexity of the process, and the interdependence of a number of parties in the entire process, we will attempt to keep our overview as simple as possible.

The major players in the US Healthcare Market are:

Three major players in US Healthcare market.

1. **Centers for Medicare and Medicaid Services (CMS)** - government funded
2. **Managed Care** – point of care directed by gatekeepers who are the physicians
3. **Third Party Payers** – insurance companies, 5 major players

CPT codes dictate reimbursement.

The Current Procedural Terminology (CPT) code set is maintained by the American Medical Association (AMA). The CPT code set accurately describes medical, surgical, and diagnostic services and is designed to communicate uniform information about medical services and procedures among physicians, coders, patients, accreditation organisations, and payers for administrative, financial, and analytical purposes. There are three types of CPT codes: Category I CPT Code(s), Category II CPT Code(s) – Performance Measurement and Category III CPT Code(s) – Emerging Technology. Essentially, the CPT Codes, as endorsed by the AMA provide a level of validation and as such, reimbursement from the CMS and Third Party Payers becomes less complicated.

The coding enables providers of medical services to properly bill for the service performed. The bill is then submitted to the relevant payer(s), and the relevant payment is returned to the provider of the service. According to the AMA, in developing new and revised regular CPT I codes the Advisory Committees and the Editorial Panel usually require:

1. that the service/procedure has received approval from the Food and Drug Administration (FDA) for the specific use of devices or drugs;
2. that the suggested procedure/service is a distinct service performed by many physicians/practitioners across the United States;
3. that the clinical efficacy of the service/procedure is well established and documented in U.S. peer review literature;
4. that the suggested service/procedure is neither a fragmentation of an existing procedure/service nor currently reportable by one or more existing codes; and
5. 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.

AtCor's Strategy for Reimbursement

AtCor intends to apply for a category I CPT code for the arterial tonometry procedure (note that US reimbursement decisions are not device-specific), which encompasses SphygmoCor[®]. In meeting the requirements of the AMA (above), we note the following to address each requirement:

(1) AtCor has FDA clearance.

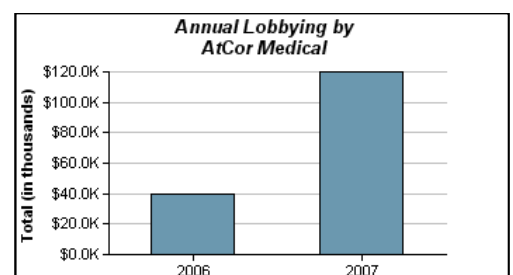
(2) Arterial tonometry is a distinct and well-defined procedure. To expedite widespread use, **AtCor** has a number of early adopters and specialist clinics (e.g. Mayo Clinic) in the US actively using the device, over a number of years and is actively working to gain the active support of relevant societies to support reimbursement for arterial tonometry, including the American Society of Hypertension and the American College of Cardiology, which includes specific letters of support from key member physicians. In our view, this is the major at-risk hurdle for **AtCor** to overcome.

(3) SphygmoCor[®] is well established in the literature (200+ publications and growing) and is now a gold standard measure of arterial stiffness in the research setting.

(4) & (5) We believe SphygmoCor[®] is unique and does not fall under existing codes according to the AMA.

Although some early adopters chose to utilise CPT code 93922, we understand the AMA has specifically recommended against the use of that code for SphygmoCor[®]. However, until arterial tonometry receives its own category I CPT code (along the lines of "peripheral arterial tonometry"), **AtCor** can leverage off an unlisted cardiovascular service code 93799, which is a directive from the AMA. Major US payers include the federal CMS (although local CMS carriers, as most coverage decisions are made locally, not nationally), Aetna, Cigna, United and Blue Cross/Blue Shield, and if one makes an affirmative coverage decision, we believe the others tend to follow suit.

We understand from database searches that **AtCor** spent approximately US\$120k on lobbying to US government representatives during CY07 (see across). While we believe the majority of this expenditure was directed to facilitating eventual reimbursement of SphygmoCor[®], it is likely that amount includes some specific lobbying to regulatory agencies following The FDA Amendments Act of 2007, which could translate to major clinical trial contracts for **AtCor** as discussed previously.



Source: Lobbying Database

AtCor has met the majority of CPT criteria in our view.

Advantages for AtCor holding its own CPT I code.

Lobbying has been intensive.

We remain hopeful of reimbursement filings in Nov 08.

On the basis of the information at hand we believe a November 08 filing for a CPT code will depend on a raft of further clinical studies due to report progressively over the next 4-6 months which will add value to coding rule (2) and (3). We note that if **AtCor** files in November and fails to secure a Category I CPT code, it is unable to apply for a further year (AMA filings occur March, June, November each year). It may be assigned a CPT III "tracking code", which for a clinician suggests ambiguity with respect to clinical evidence/efficacy and does not garner widespread support typically.

We note that a CPT III code will not allow **AtCor** to rely on the unlisted code. In our view, it would be pertinent for **AtCor** to use the unlisted code (93799) as opposed to accepting a CPT III code. As CPT coding decisions work on a two year cycle, if **AtCor** receives a CPT I code, it will be able to get reimbursement in 2010.

Examining the Competitive Landscape

SphygmoCor® remains a unique selling proposition.

SphygmoCor® is the only US FDA/EU approved device to measure central pressures and provide indices of arterial stiffness, non-invasively. However, we examined whether any existing or emerging competitive threats to **AtCor's** product offering exist in the market place, discussed below. We note that all comparables/competitors have some aspects that are shared with SphygmoCor®, but none are able to produce a central pressure measurement at the heart in mm mercury (Hg), which is proprietary to **AtCor** due to the unique transfer function of the device. Derivation of the central pressure waveform allows central measures of particular cardiac attributes, whereas other players in the field detect peripheral pulse waves and attempt to reconcile that with what is going on centrally – this is a major drawback.

We note that one of the most effective barriers to entry for **AtCor** apart from the peer endorsement/acceptance via clinical or scientific studies is its proprietary database of ~2,000 males and ~2,000 females comprising the normal central data set, from which the patient's central pressure data is compared to in order to assess cardiovascular risk. This provides context for the measurements of Augmentation Index (i.e. arterial stiffness), reflected wave measurements and central pressure measurements.

Is SphygmoCor® Competitive to ECG/EKG or Echocardiography?

SphygmoCor® does not compete with ECG/EKG or echocardiograms.

AtCor believes that SphygmoCor® is complementary to the existing and commonly used cardiovascular monitoring devices/instruments including Electrocardiogram (ECG/EKG) and Echocardiograms. In the US, approximately 700 million ECG tests were performed in 2006, underlying the importance of this technology in the global cardiac care market. An electrocardiogram, also called an EKG or ECG, is a simple test that detects and records the electrical activity of the heart. It is used to detect and locate the source of heart problems.

It shows the heart's rhythm (steady or irregular) and other diagnostic information about the heart's conduction system. It also records the strength and timing of the electrical signals as they pass through each part of the heart. EKG/ECG tests do not provide any information on arterial stiffness or central pressures.

An echocardiogram (also called an echo) is a type of ultrasound test that uses high-pitched sound waves that are sent through a device called a transducer. The device picks up echoes of the sound waves as they bounce off the different parts of your heart. These echoes are turned into moving pictures of your heart that can be seen on a video screen. Echo can be used as part of a stress test and with an ECG to help your doctor learn more about your heart.

The test examines the ability of your heart chambers to pump blood (cardiac performance). During an echocardiogram, the machine can determine how much blood the heart is pumping during each heartbeat (ejection fraction). Echos can also provide information on abnormal heart sounds (e.g. murmur), an enlarged heart, the thickness and movement of the heart wall, look at the heart valves and check how well they work.

Hypertension Diagnostics, Inc.

Hypertension's revenues were just US\$0.3m in 1H08A.

Hypertension Diagnostics (OTC:HDII) headquartered in Eagan, Minnesota, was founded in July 1988 to develop a proprietary blood pressure waveform analysis methodology into a non-invasive means for measuring the elasticity of large and small arteries. HDI has developed proprietary blood pressure waveform analysis technology which has been incorporated into the design of several products, including the CVProfilor[®] which allows a physician or researcher to profile individuals with respect to their cardiovascular health. This capability is incorporated into a series of products designed by HDI specifically for use in both clinics and research environments.

Hypertension Diagnostics' revenue for 6 months ended 31 Dec was just US\$0.3 million, down 69.9% on pcp, in our view highlighting the inability of this product to sell into the clinical markets without widespread clinician support and reimbursement. A head to head published study found that SphygmoCor[®] was far less variable in measurements taken, with competitive advantages in the manner by which SphygmoCor[®] analyses the radial waveform.

International Medical Device Partners (IMDP), Inc.

IMDP markets and sells a product called CardioVision MS-2000 is a clinically proven, FDA approved, medical device producing an Arterial Stiffness Index (ASI) as another risk factor for the early detection of cardiovascular disease. IMDP exclusively distributes the CardioVision MS-2000 throughout North America, South America, Europe, South Korea, and the Middle East. The product only provides one measure, arterial stiffness, and does not appear to be making inroads in the clinical market. This product does not produce a central waveform or pressure signal.

Pulse Metric, Inc

Pulse metric does not provide information on central pressures.

Pulse Metric, Inc. manufactures the DynaPulse[®] non-invasive blood pressure and hemodynamic monitoring system. Within a minute during a routine blood pressure measurement, it provides information on blood pressures, heart rate and pulse waveform, and functions of left ventricle and arterial system, such as left ventricle contractility, cardiac output, and arterial compliance, distensibility and resistance.

We have not been able to ascertain FY revenues; however we note the product does not purport to measure central pressures and arterial stiffness and has limited clinician validation via independent peer studies. The product appears more competitive with USCOM (ASX:UCM), which is discussed below.

Artech Medical

Artech provides no central measures.

Artech Medical was founded in 2001 to develop, manufacture and market medical products in cardiovascular diagnostics. Artech acquired the Complior[®] franchise from Colson/DuPont Medical. There are currently over 400 units in use throughout the world since 1994. Artech uses pulse wave velocity measurement to determine arterial stiffness – however, unlike SphygmoCor[®], the technology does not provide a central pressure measurement including central systolic, diastolic and pulse pressures. Further, the SphygmoCor[®] Vx product is for pulse wave velocity.

IMI Medical (ASX:IMI) & USCOM (ASX:UCM)

IMI Medical (IMI) markets the Intelliheart cardiovascular diagnostic system and more recently acquired the Cardanal ECG technology. The Company predominately provides a complete cardiovascular risk assessment service to a range of industries, for a fee. An integral component into the system is SphygmoCor[®] to provide the central pressure readings for the Intelliheart platform.

AtCor is a key supplier to IMI.

In that regard, **AtCor** is a key supplier to IMI Medical. Paradoxically, despite a significant revenue differential between the two, with **AtCor's** FY07 sales being 555% greater than IMI, it has a current market capitalisation approximately 3x that of **AtCor** and recorded 1H cash sales of \$0.36 million (versus \$3.0 million for **AtCor**; a 733% differential), which we believe reinforces that **AtCor** is undervalued at current levels.

IMI's business model will facilitate AtCor's market strategy.

In our view, the business model of IMI Medical differs from that of **AtCor**, given it markets a complete suite of different cardiac measures integrated into a single platform marketed to GPs. Given **AtCor's** top/down "pyramid" sales strategy, this is not a market **AtCor** has yet entered. Indeed, IMI may in fact be expending the marketing dollars to educate GPs on central pressures, which in our view can only help **AtCor** when it seeks to enter this market. As a supplier to IMI's platform, **AtCor** possesses a degree of flexibility in the relationship. Based on our view of **AtCor's** business model, IMI has 2+ years of GP exclusivity in Australia before **AtCor** may consider selling SphygmoCor[®] as a stand alone product in this market as per its top/down pyramid strategy.

USCOM provides no central pressures measures.

The USCOM product offers real-time parameters such as Cardiac Output (the volume of blood being pumped by the heart), Stroke Volume (volume of blood pumped per beat) and Oxygen Delivery. Such information provided by the device does not provide any information on central pressures, and as such is a complementary rather than competitive product to SphygmoCor[®]. USCOM has a market cap of \$10 million and recorded 1H08 cash sales of \$0.34 million. The Company has 7 published papers on the use of the USCOM product.

Other Risks to the AtCor Business Model

Clinician Adoption

While **AtCor** believes it has the business plan to achieve clinical adoption, we have discussed the sensitivities and drivers toward this end goal and should the Company be unable to determine the clinical utility of SphygmoCor[®] and unable to convince government regulators or private health insurers to reimburse the test, the business will be adversely affected.

Direct Sales and Distribution Model

AtCor's sales and distribution model is based on "one-off" orders with a small recurring revenue stream through replacement of tonometers and software upgrades. In that regard, **AtCor** lacks both long term supply contracts and annuity style revenue streams and is reliant on its internal sales and marketing employees and third party distribution partners to generate sales. As discussed, there is a support monitoring and data service component over the life of the clinical trial with pharma partners

Reimbursement

At present, the bulk of **AtCor's** product revenues are derived from the research and pharmaceutical clinical trials markets, worth US\$109 million in the US (US\$218 million globally). However, major financial outperformance will largely depend on the availability of reimbursement, if any, for the cost of **AtCor's** products and services from government health administration authorities, private health coverage insurers and other payer organisations (for the all important US market).

If **AtCor** cannot or are unable to achieve reimbursement from third parties, they will depend upon direct patient payment, which will significantly diminish market opportunities. Therefore, any inability to obtain third party reimbursement and/or direct patient payment will have a material adverse effect on the **AtCor** business, financial condition and results of operations.

Funding & Market Risk

AtCor presently has \$4.7 million in cash and cash equivalents. While the Company is experiencing strong revenue growth, a levelling in its cost base, and a reduction in cash burn, the Company is likely to require further funding into the future to meet its strategic and operational objectives.

Board of Directors

Director loans of \$1.9m due 4Q CY09.

At present, the Company has outstanding loans to three directors and senior executives, including former CEO Ross Harricks, made at the time of the IPO (\$0.50). The accrued loan amount as at 1H08 totalled \$1.9 million (including interest). Such loans are full recourse loans secured by the purchased shares and have a period of 4 years, which fall due in 4Q CY09. Interest rates are applied each FY as per ATO determinations for FBT purposes.

Mr Donal O'Dwyer – Chairman

Mr O'Dwyer became chairman of AtCor in September 2004. He was formally worldwide president of Cordis Cardiology, the cardiology division of Johnson & Johnson and worked for 12 years at Baxter Healthcare. Mr O'Dwyer currently sits on the boards of Cochlear (ASX:COH), Mesoblast (ASX:MSB) and Sunshine Heart (ASX:SHC).

Mr Duncan Ross – Chief Executive Officer

CEO with very strong sales/marketing background.

Mr Ross took over as CEO following the AGM in November 2006. He has over 23 years experience in the clinical diagnostics and life science sectors. He was formally President of Apogent Technologies and Fisher Scientific Product's laboratory equipment group, the number two supplier in the \$2.8 billion laboratory equipment market.

Dr Michael O'Rourke – Non Executive Director and Founder

Dr O'Rourke is a practising cardiologist and inventor of the core technology that encompasses SphygmoCor[®]. He has written over 300 scientific papers and is an editorial board member of the American Heart Association and American College of Cardiology.

Mr Peter Jenkins – Non Executive Director

Joined the board in 2000. Has a background in medical devices having sold Trace Scientific to Thermo Electron in 1998.

Dr Lisa McIntyre – Non Executive Director

Dr McIntyre is currently a director of L.E.K Consulting, where she leads the Asia Pacific Life Sciences practice. She has been a consultant to the life sciences sector for over 14 years.

Share Register Analysis

Top 20 account for 59.1% of issued capital.

Colonial First State recently exited their 26.1% holding in the Company (please see important disclaimer below). The Top 20 currently account for 59.1% of the issued capital, with the Top 10 shareholders noted below. **AtCor** insiders collectively hold approximately 22-23% of the issued capital.

Insiders hold 22-23%.

Capital Investment Pty Ltd – **17.8%**
 Perpetual Nominees <BEF A/C> - **5.3%**
 Michael O'Rourke – **4.5%**
 Pehila Pty Ltd – **4.0%**
 Blaironia Pty Ltd – **3.1%**
 Christine Harricks – **2.9%**
 UBS Nominees – **2.8%**
 Ernest Keith Stewart – **2.4%**
 Harricks Investments Pty Ltd – **2.2%**
 Barrijag Pty Ltd <HADLEY S/F A/C> - **2.0%**

On average, yearly volumes are equivalent to 0.4x the issued capital of the Company; however, stripping out the Colonial First State sell down during 4Q CY07 implies yearly volumes of 0.14x issued capital. **AtCor** can therefore be considered a highly illiquid stock.

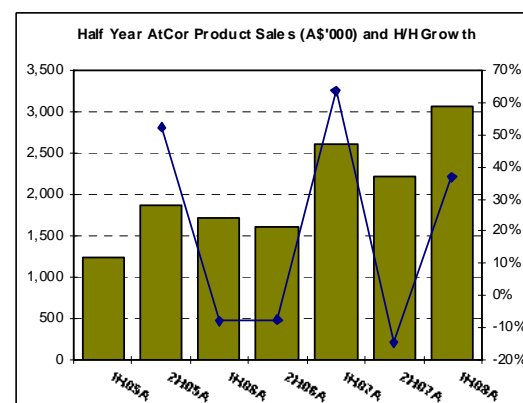
Synopsis of 1H08 Results

1H08A NPAT loss of \$1.7m, down 27.2% on pcp.

AtCor recently reported a 1H08A NPAT loss of \$1.7m, down 27.2% on pcp, with very encouraging signs the business is making inroads into the research/clinical market and pharmaceutical clinical trials market. Product revenue growth was 16.6% on pcp, with a significant absolute improvement in gross margins by 5.4% to 82.7% (see below). **AtCor** has recorded relatively consistent growth in 1H product sales revenue on pcp over a number of years, indicative that the Company is making inroads into its three major market areas.

\$ million	1H06A	1H07A	1H08A
Product Sales	1.7	2.6	3.1
growth (%)	39.7%	51.6%	16.6%
Gross Margin	70.1%	77.3%	82.7%

Source: AtCor Medical



Source: AtCor Medical

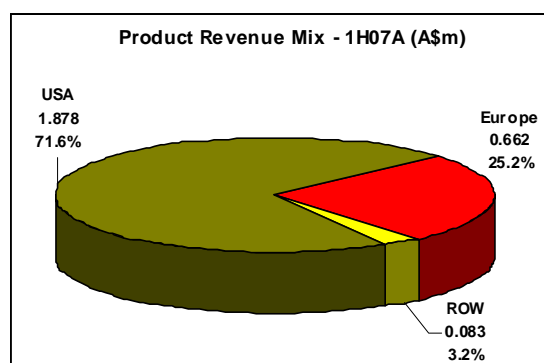
Significant improvement in gross margins on pcp.

FX losses negligible, despite AUD strength against USD.

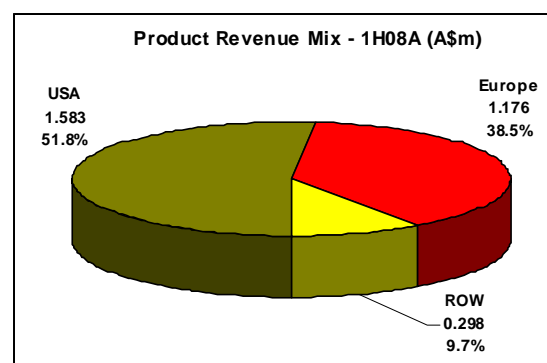
European sales standout, up 78% on pcp.

Gross margin improvement was attributable to the first full period utilising a re-designed tonometer with a reduction in costs and a change in the sales/service mix. In constant currency terms, 1H08A sales were up 26% on pcp, indicating an absolute 9% FX headwind. However, negligible FX losses were recorded for the 1H, given the Company's natural AUD/USD hedge (discussed above). **AtCor's** product revenue mix and growth on pcp continued to impress (see below). Excluding the US\$1.1m pharmaceutical order in 1H07A, and assuming constant currency translation, US sales in the 1H08 were up 97% of pcp. The Company issued guidance that 2H08E US sales are expected to show strong growth.

European sales benefited from strong pharmaceutical/clinical uptake with sales up 78% on pcp. ROW sales increased 259% on pcp from Australia/NZ and we believe some early adopter sales in India/China following distribution agreements signed in late 2Q CY07.



Source: AtCor Medical



Source: AtCor Medical

Costs remained well controlled.

Costs remained well controlled for the half, with a 2.1% reduction in total expenditure on pcp (see below). Reduction in marketing and sales expense decreased on pcp principally due to the promotion of Duncan Ross to the CEO role, reflected in the increase on pcp in administration expense. Clinical trial expenditure (reflected in the product development line) continued to focus on outcome trials in the US, examining SphygmoCor® in a range of clinical settings. We believe **AtCor** is currently funding 15-20 controlled studies and/or data mining activities.

\$ million	1H07A	1H08A	Change
Marketing and Sales Expense	(2.85)	(2.59)	-8.9%
Product Development & Regulatory Expense	(0.72)	(0.87)	21.3%
Occupancy Expenses	(0.10)	(0.08)	-17.5%
Administration Expense	(1.01)	(1.08)	7.6%
Total Operating Expenses	(5.26)	(5.15)	-2.1%

Source: Company

Strong AUD/USD will continue to pose an issue.

We understand AUD/USD rates in 1H07 averaged high 0.70s, with 1H08A FX close to 0.86, representing a significant appreciation of the A\$. Given the AUD/USD FX has increased beyond 0.90 recently, we expect further headwinds in the 2H, particularly given \$US sales are likely to contribute >50% through FY08 and FY09 in our view. The Company has not entered into any currency hedges.

Outlook

Our view is that **AtCor** can build a sustainable medium term business based on currently penetrated markets. However, we believe a major de-risking of the Company, its technology and long term prospects will occur once US clinical reimbursement is achieved. In that regard, we believe the Company may file for US category 1 CPT code for arterial tonometry (i.e., the SphygmoCor[®] procedure) during 4Q CY08.

Despite no current and specific CPT code, the Company has exhibited product revenue CAGR of 25.1% over the period FY05A-FY0A7, with 50% product revenue growth (constant FX) and >80% gross margins guided for FY08. **AtCor** currently trades on a forward EV/Sales multiple of 0.1x, a major discount to ASX peer comparables and at a 32.9% discount to NTA with an EV of \$0.5m.

Price target of \$0.24. We are forecasting an FY08E NPAT loss of \$4.1m, reducing to \$2.7m in FY09E. Based on our DCF analysis to FY12E, discounted multiple of earnings and modest revenue multiples set at a discount to peer comparables, our preferred valuation for **AtCor** shares of **\$0.24** (fully diluted) forms the basis of our price target and initiating Speculative Buy recommendation.

ACG - Summary of Forecasts

ACG \$ 0.05

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY06A	FY07A	FY08E	FY09E	FY10E
Total Revenue	4,285	5,736	7,750	9,791	13,434
<i>Growth (pcp)</i>	22.8%	33.9%	35.1%	26.3%	37.2%
Cost of Goods Sold	(965)	(1,011)	(1,190)	(1,595)	(2,233)
<i>Gross Margin</i>	71.1%	79.2%	82.5%	82.5%	82.5%
Net Operating Revenue	(4,158)	(5,251)	(3,880)	(2,549)	287
Direct R&D Expenses	0	0	0	0	0
EBITDA	(4,720)	(5,917)	(4,212)	(2,624)	215
Dep'n/Other Amort'n	(64)	(162)	(145)	(155)	(179)
EBIT	(4,801)	(6,079)	(4,357)	(2,779)	35
Net Interest	562	666	331	76	72
Pre-Tax Profit	(4,239)	(5,413)	(4,025)	(2,704)	107
Tax Expense	234	230	(91)	0	0
Minorities	0	0	0	0	0
NPAT	(4,005)	(5,183)	(4,116)	(2,704)	107
<i>Growth (pcp)</i>	-35.3%	-29.4%	20.6%	34.3%	n/a
Net Abnormals	0	0	0	0	0
Reported Profit	(4,005)	(5,183)	(4,116)	(2,704)	107

PER SHARE DATA					
Period	FY06A	FY07A	FY08E	FY09E	FY10E
Reported EPS (c)	(4.0)	(5.2)	(4.1)	(2.5)	0.1
<i>Growth (pcp)</i>	n/a	n/a	-20.6%	-40.3%	-103.9%
EPS Pre-Net R&D (c)	(4.4)	(5.4)	(4.7)	(3.0)	(0.4)
<i>Growth (pcp)</i>	n/a	n/a	-12.3%	-36.5%	-85.1%
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)	(4.4)	(3.1)	1.1
NTA per share (c)	14.1	9.1	5.1	4.1	4.1

KEY RATIOS					
Period	FY06A	FY07A	FY08E	FY09E	FY10E
EBITD/Sales Margin %	-110.2%	-103.2%	-54.3%	-26.8%	1.6%
EBIT/Sales Margin %	-112.0%	-106.0%	-56.2%	-28.4%	0.3%
Current ratio (x)	9.8	4.5	2.3	1.9	2.5
Net Debt : Equity (%)	-82.0%	-74.6%	-49.9%	-21.0%	-41.8%
ROE (%)	-51.6%	-43.6%	-56.0%	-53.9%	2.3%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY06A	FY07A	FY08E	FY09E	FY10E
PE Ratio (x)	n/a	n/a	n/a	n/a	52.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITD (x)	1.4	0.3	n/a	n/a	14.6
EV/EBIT (x)	1.4	0.3	n/a	n/a	89.1

CAPITAL RAISING ASSUMPTIONS					
Period	FY06A	FY07A	FY08E	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	FY08E	FY09E	FY10E
Cash	11,811	6,999	2,658	996	1,977
Receivables	1,381	1,446	1,701	2,552	3,829
Pre Payments	0	0	0	0	0
Inventories	294	383	476	638	893
Investments	0	0	0	0	0
Other	213	196	115	115	115
Total Current Assets	13,699	9,024	4,949	4,301	6,813
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables*	1,697	1,828	1,975	2,134	0
Property Plant & Equip	140	284	320	392	457
Intangibles	309	268	208	177	150
Deferred Tax Assets	0	0	0	0	0
Other	0	0	0	0	0
Total Non-Current Assets	2,146	2,380	2,504	2,703	607
TOTAL ASSETS	15,845	11,404	7,453	7,005	7,421
Accounts Payable	1,388	1,985	1,905	2,005	2,297
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	204	273	383
Total Current Liab	1,404	2,004	2,109	2,279	2,680
Borrowings	0	0	0	7	7
Provisions	35	18	20	20	20
Other	0	0	0	0	0
Total Non-Current Liab	35	18	20	27	27
TOTAL LIABILITIES	1,439	2,022	2,129	2,306	2,707
TOTAL EQUITY	14,405	9,382	5,324	4,699	4,714

* Assumes director loans repaid in FY10

CASH FLOW SUMMARY					
Period	FY06A	FY07A	FY08E	FY09E	FY10E
EBIT (excl Abs/Extr)	(4,801)	(6,079)	(4,357)	(2,779)	35
Add: Depreciation	64	121	114	128	157
Change in Pay.	(118)	597	(80)	101	292
Change in Rev. in Ad.	0	0	0	0	0
Less: Tax paid	234	230	(91)	0	0
Net Interest	562	666	331	76	72
Change in Rec.	(353)	(65)	(255)	(852)	858
Change in Inv.	(91)	(89)	(93)	(162)	(255)
Gross Cashflows	(4,486)	(4,578)	(4,399)	(3,462)	1,181
Capex	(97)	(137)	(150)	(200)	(200)
Free Cashflows	(4,583)	(4,715)	(4,549)	(3,662)	981
Dividends Paid	0	0	0	0	0
Net Cash Flow	(4,583)	(4,715)	(4,549)	(3,662)	981

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