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AtCor Medical Holdings Limited (ACG)

Speculative Buy

5m Covered Lives Added in Midwest

\$0.15

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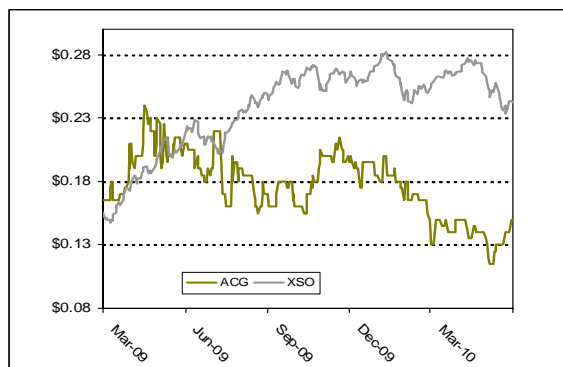
Summary

Market capitalisation (M)	\$15.1
Share price	\$0.15
Price target	\$0.30
52 week low	\$0.12
52 week high	\$0.22
Ave Monthly Vol (M)	1.6
Cash as at 31/3/10 (M)	\$1.7
NTA per share	\$0.06

Key Financials (A\$'000)

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

Share Price Graph (A\$)



Key Points

AtCor has received a positive Medicare coverage ruling in Michigan, USA for use of SphygmoCor® to manage hypertension.

Michigan Medicare carrier represents over five million covered lives across four US states.

Expectation of additional state-based coverage decisions, including Florida, over next 2-3 quarters.

Excellent entrée to national Current Procedural Terminology (CPT) 1 coding, expected to be filed during 4Q CY10.

Our View

- Michigan Medicare Reimbursement Obtained** – In a positive sign on the importance of central pressure measures in the treatment of resistant hypertension, an Administrative Law Judge (ALJ) for the Centers of Medicare and Medicaid Services has ruled that the Medicare health plan for Michigan must provide coverage for SphygmoCor®. The service provided will be likely rebated at the rate consistent with the unlisted cardiovascular CPT code, 93799 and perhaps more importantly as volumes increase reimbursement will become automatic, rather than via manual claims processing. We anticipate this decision will provide a reasonable lynchpin for other state-based coverage decisions for AtCor into the future, such as Florida, under that state's Medicare health plan. The net effect is clear. With a sound footing for reimbursement, a clinician with a reasonable load of Medicare patients will be much further incentivised to purchase a basic SphygmoCor at US\$14k, as under the average 93799 reimbursed rate of say US\$75, the payback volume is 187 tests, which for an average practice translates to a payback period of approximately 4.7 months in our view.
- Improving Pipeline of Pharmaceutical Clinical Trial Contracts, Conversion Anticipated** – We also note the Company's improved outlook for additional pharmaceutical contracts throughout the remainder of CY10, following a number of new leads entering the pipeline in recent times and several "close to conversion" opportunities. This has materially improved following the passing of the US healthcare reform initiatives and medical literature that continues to confirm the predictive qualities of non-invasive central pressure and arterial stiffness measures in cardiovascular disease. We remain hopeful of one additional contract being secured prior to FY11. As with other contracts, we anticipate this could be in the range US\$0.75m-\$1.0m.
- Outlook** – AtCor remains a high quality medical device company, with multiple revenue sources, and an accelerating reimbursement framework in the USA particularly. We maintain our FY10 NPAT loss estimate of \$1.5m, on product revenues of \$9.9m which we expect to reverse into a small profit (\$0.1m) in FY11. We have paired back some of our product revenue growth, consistent with the operating market where +35% product sales growth p/a to end FY12 may prove a challenge, given the volatility in FX particularly. We maintain our Speculative Buy recommendation but have reduced our PT by 13 cps to \$0.30, representing the blended average of our 2 year DCF and discounted 20x FY12 earnings.

Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Product Sales (\$m)	10.9	9.9	-9.5%	15.9	12.7	-20.3%	22.6	16.7	-26.3%
EBITDA (\$m)	(1.5)	(1.5)	-1.1%	2.8	0.2	-92.3%	7.1	2.5	-64.7%
EBIT (\$m)	(1.6)	(1.6)	-1.0%	2.6	0.1	-97.0%	7.0	2.4	-66.4%
NPAT (\$m)	(1.5)	(1.5)	-1.1%	2.7	0.1	-96.1%	7.2	2.4	-66.7%
EPS (c)	(1.5)	(1.5)	-1.1%	2.7	0.1	-96.1%	7.2	2.4	-66.8%

Source: Taylor Collison estimates

ACG - Summary of Forecasts

ACG \$ 0.15

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Product Sales	6,451	11,209	9,886	12,667	16,664
growth (%)	32.8%	73.8%	-11.8%	28.1%	31.6%
Total Revenue	7,363	12,400	10,572	12,696	16,714
Cost of Goods Sold	(1,286)	(1,740)	(1,295)	(1,761)	(2,350)
Gross Margin	80.1%	84.5%	86.9%	86.1%	85.9%
Total Operating Expenses	(10,942)	(13,908)	(11,961)	(12,452)	(14,159)
Net Operating Revenue	(3,579)	(1,508)	(1,389)	244	2,555
Direct R&D Expenses	0	0	0	0	0
EBITDA	(3,997)	(1,750)	(1,472)	215	2,505
Dep'n/Other Amort'n	(148)	(176)	(135)	(137)	(155)
EBIT	(4,145)	(1,926)	(1,608)	78	2,350
Net Interest	418	242	84	29	50
Pre-Tax Profit	(3,727)	(1,684)	(1,524)	107	2,400
Tax Expense	(66)	(7)	0	0	0
Minorities	0	0	0	0	0
NPAT Normalised*	(3,635)	(1,946)	(1,332)	107	2,400
NPAT	(3,793)	(1,691)	(1,524)	107	2,400
Growth (pcp)	26.8%	55.4%	9.9%	n/a	2151.5%
Net Abnormals	0	0	0	0	0
Reported Profit	(3,793)	(1,691)	(1,524)	107	2,400

PER SHARE DATA					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Reported EPS (c)	(3.8)	(1.7)	(1.5)	0.1	2.4
Growth (pcp)	-26.8%	55.4%	10.2%	n/a	2151.5%
EPS Normalised (c)	(3.6)	(1.9)	(1.3)	0.1	2.4
Growth (pcp)	-32.6%	46.5%	31.8%	n/a	2151.5%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(3.5)	0.1	(1.2)	(0.2)	2.4
NTA per share (c)	5.7	4.5	3.0	3.1	5.6

KEY RATIOS					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBITDA/Sales Margin %	-54.3%	-14.1%	-13.9%	1.7%	15.0%
EBIT/Sales Margin %	-56.3%	-15.5%	-15.2%	0.6%	14.1%
Current ratio (x)	2.9	2.3	2.2	2.2	2.6
Net Debt : Equity (%)	-55.6%	-73.5%	-60.9%	-47.7%	-67.4%
ROE (%)	-49.4%	-31.9%	-39.2%	3.4%	54.2%
Dividend Payout Ratio (%)	n/a	n/a	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
PE Ratio (x)	n/a	n/a	n/a	141.2	6.3
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	1.8	1.0	1.3	1.1	0.7
EV/EBITDA (x)	n/a	n/a	n/a	62.8	4.5
EV/EBIT (x)	n/a	n/a	n/a	174.2	4.8

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

* Excluding FX gains/losses

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

CASH FLOW SUMMARY					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(4,145)	(1,926)	(1,608)	78	2,350
Add: Depreciation	102	131	102	108	137
Amortisation	46	45	33	29	18
Change in Pay.	(32)	1,270	(1,048)	105	886
Less: Tax paid	(66)	0	0	0	0
Net Interest	418	242	84	29	50
Change in Rec.	(287)	179	1,009	(161)	(802)
Change in Inv.	(18)	(33)	39	(365)	(240)
Other	504	163	153	(25)	59
Gross Cashflows	(3,478)	71	(1,236)	(202)	2,458
Capex	(168)	(132)	(160)	(160)	(200)
Free Cashflows	(3,646)	(61)	(1,396)	(362)	2,258
Dividends Paid	0	0	0	0	0
Exchange Rate Adjustments	(37)	161	(120)	0	0
Net Cash Flow	(3,683)	100	(1,516)	(362)	2,258

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