



20 February 2009

AtCor Medical Holdings Limited (ACG)

Speculative Buy

1H09 Maiden NPAT of \$0.2m; Outlook Remains Solid

\$0.175

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Reported maiden 1H09 NPAT of \$0.2m, well ahead of estimates and an excellent outcome given global conditions.

FX gains on USD/Euro denominated receivables and cash of \$0.6m.

Underlying NPAT loss ex-FX of \$0.4m, 33.6% better than our expectations on lower than expected product and regulatory expenses.

Product sales of \$5.4m, up 75.8% on pcp and within expectations from January mgt guidance.

Geographic sales up 125% on pcp in the Americas (A\$3.6m), 26% in Europe (A\$1.5m) and 11% in Asia/Pacific (\$0.3m).

Stable GMs of 82.7%, with +80% GM for FY09 expected.

Summary

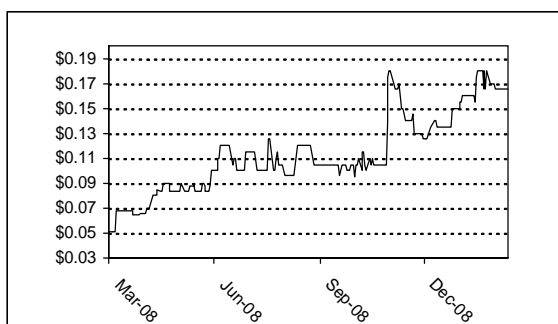
Market Capitalisation (M)	\$17.5
Share Price	\$0.175
Price Target	\$0.30
52 Week High	\$0.18
52 Week Low	\$0.05
Av. Monthly Volume (Yr Rolling)(M)	1.1
Cash as at 31/12/08 (M)	\$2.9
Est. Cash Burn Per Quarter (M)	n/a
NTA Per Share	\$0.06

Our View

- On a geographic/segment basis, the Company recorded a profitable 1H09 in all jurisdictions. Management has re-iterated full year product sales guidance of at least \$10.0m, implying FY sales growth of 55% on pcp. We are forecasting FY09 product sales up 59.3% on pcp; however, based on the sales run-rate thus far in FY09, new contracts signed and FX our sales estimates may prove conservative. Cash outflow from operations of \$1.2m was partially offset by director loan repayments of \$0.5m. Inventory build (\$0.25m) for the 1H was attributable to the US/European launch of the newly approved portable SphygmoCor[®] system. The increase in high margin service income (1H09: \$0.77m v \$0.42m pcp) is commensurate with AtCor's stated business model of targeting pharma clinical trials, which to date has been principally driven out of the US. The FX rates continues to offer a benefit to AtCor with sales denominated in US\$/€ and a partial hedge via its US/European operations. We believe a 10% decline of the A\$ against both the US\$/€ adds 0.3c to our FY10 and FY11 EPS estimates.
- We consider AtCor's business as relatively immune from global conditions, as it seeks to exploit new market opportunities emerging in pharma clinical trials, largely driven by an increased cardiac safety focus and beneficial central pressure (CP) determinations for new drugs. We understand the bulk of clinical trial orders to date have been from large pharma, rather than smaller biotech companies which represent a riskier client given cash/capital constraints. At this juncture, the Company is not reliant on specialist clinician sales, where evidence suggests a slowdown generally in capital equipment purchases. As we have proposed previously, we view CP measurement using SphygmoCor[®] as the next major paradigm shift in cardiovascular disease management.
- Based on FY09 product sales guidance, in the absence of major FX movements in the 2H, we are forecasting an FY09 NPAT loss of \$1.6m, down significantly on pcp and 23.8% ahead of our previous estimates. We have increased our FY10, FY11 EPS estimates to 0.5c and 3.0c, respectively, principally due to our increased confidence in the sales funnel and penetration into the pharma clinical trials market. AtCor currently trades on a forward EV/Sales multiple of 1.0x, which places it at the bottom end of comparable sector multiples, despite demonstrable and significant product revenue growth. We maintain our Speculative Buy recommendation and blended valuation price target of \$0.30.

Key Financials (A\$'000)

Year End	1H09	2009	2010
	Actual	Est.	Est.
Product Sales	5,377	10,279	13,743
Total Revenue	6,507	11,706	14,364
COGS	(932)	(1,799)	(2,405)
Net Op. Rev	304	(1,418)	723
EBITDA	140	(1,639)	702
EBIT	53	(1,778)	550
Reported Profit	180	(1,594)	570
Reported EPS (c)	0.2	(1.4)	0.5
PE Ratio (x)	n/a	n/a	33.7
ROE (%)	n/a	-31.1%	12.5%

Share Price Graph (A\$)

1H09 Overview

Underlying NPAT loss of \$0.4m for the half.

With a little help from the falling AUD against both the USD and Euro, AtCor Medical has recorded a maiden 1H09 NPAT of \$0.2m. An underlying NPAT loss of \$0.4m was still 33.6% better than expectations, and largely the result of a lower than expected spend on regulatory and product development than forecast. We consider this lower spend a timing issue of current clinical trials sponsored by AtCor Medical and reimbursement initiatives in the US.

Product sales of \$5.4m were up 75.8% on pcp (see below). On a constant currency basis, sales grew 64% on pcp, an excellent result despite the global turmoil. Gross margins were also maintained over pcp, with guidance of 80%+ GM for FY09.

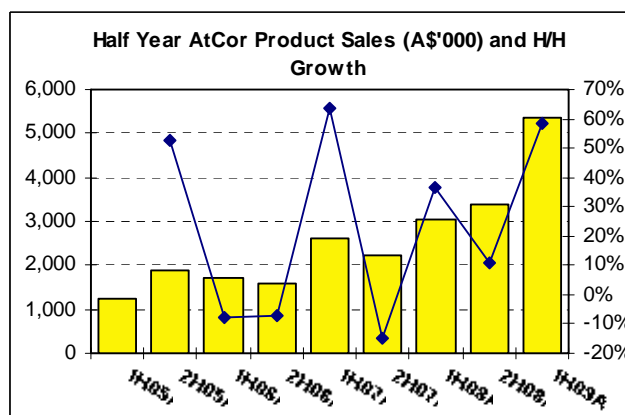
Product sales up 76% on pcp, 64% on cc basis.

\$ million	1H08A	1H09A	Change
Product Sales	3.1	5.4	
growth (%)	16.6%	75.8%	
Gross Margin	82.7%	82.7%	0 bps

Director loan repayments also accelerated during the 1H09, with a further \$0.5m paid down, leaving approximately \$1.2m of the full recourse loans to be repaid by Nov 09 (+ accrued interest).

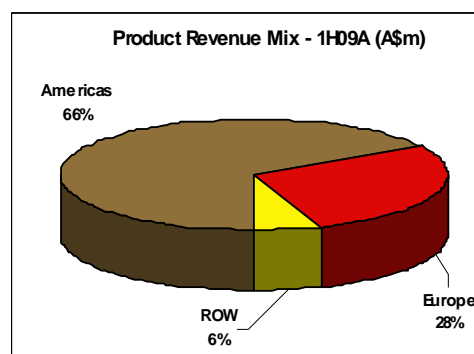
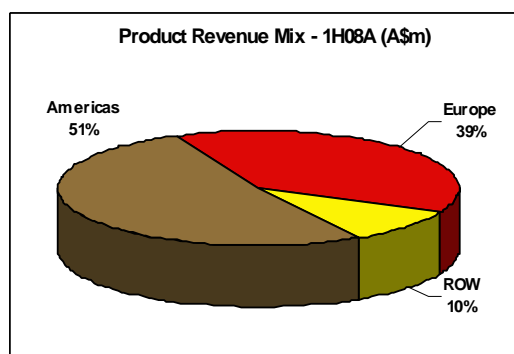
58.5% sales growth on 1H08, principally the result of increasing pharma sales.

SphygmoCor[®] product sales grew 58.5% over the 2H08, with 1H09 CAGR growth in sales of 24.5% since 1H04, as shown across. The main product sales drivers since FY05 has been the pharmaceutical clinical trials market, which is now a key focus of the Company, given the annuity aspects of the trial (average duration of two years) and high margin applicable service income. Moreover, the pharma model offers a defensive revenue stream while the Company actively seeks reimbursement for the device and therefore specialist clinician sales.



Source: Taylor Collison

On a segment basis, we note the Americas accounted for 66% of product sales in 1H09 versus 51% in 1H08 (see below). The 125% growth recorded on pcp is the result of larger, high value pharmaceutical sales contracts.



Source: Company, Taylor Collison

312% increase in Pharma Clinical Trial Contracts in 1H09

1H09 pharma contracts signed worth US\$5.4m, up 312% on pcp.

The Company signed a further US\$5.4m in pharma clinical trial contracts and associated services during the 1H09 (see across). Pharma sales were up 312% on pcp, highlighting the traction AtCor is continuing to build in this market segment. We expect product revenues to be recognised progressively over the next two years, based on an average duration of the clinical trial. We note as is typical with these contracts, both the stage of development and the pharma client remains confidential. We understand the Company is beginning to diversify its customer base, which until 1H09 was reliant on essentially on several key customers.

1H Pharma Contracts

Date	Value (US\$m)
Jan-09	0.86
Dec-08	1.5
Nov-08	0.5
Oct-08	0.9
Jul-08	1.6
Total	5.36

Source: AtCor Medical

Result Snapshot

The following Table provides an overview of the 1H09 AtCor results versus our forecasts. The Table highlights the two major P&L items, viz Product Development and Regulatory Expenses and Revenues (inc FX) that provided the overall NPAT ahead of our forecasts.

	TC est.	Actual	%
Product Sales	5.41	5.38	-0.61%
Total Revenues	5.79	6.51	12.38%
Marketing and Sales Expense	(2.73)	(3.13)	14.80%
Product Dev & Reg Expense	(1.53)	(0.96)	-37.06%
Occupancy Expenses	(0.08)	(0.04)	-53.75%
Administration Expense	(1.07)	(1.14)	6.26%
Total Operating Expenses	(6.36)	(6.20)	-2.47%
EBITDA	(0.66)	0.14	-121.21%
Depreciation	(0.05)	(0.07)	30.00%
Amortisation	(0.02)	(0.02)	10.00%
EBIT	(1.36)	0.05	-103.90%
NPAT	(0.64)	0.18	-128.13%

Source: Taylor Collison

Additional Major Clinical Outcome Studies Published

Three major clinical outcome studies reported during 1H09 – with new FDA safety initiatives.

The SphygmoCor[®] publication run rate now stands at over 400 peer reviewed publications, with cited reference exceeding 1,100. Over the 1H09, an additional three major studies were published, highlighting the utility of central pressure testing using SphygmoCor[®], with an additional benefit obtained in our view from amendments to FDA requirements for clinical trials, as highlighted below and further in the report.

- 2,405 patient study indicated central pulse pressures using SphygmoCor[®] sharply increased cardiovascular events (CPP >50mm of mercury), stratifying those patients at risk of events, whereas traditional cuff measures showed no such predictive quality. This is a vital result in guiding clinical endorsement in our view.
- In a second 800 patient study, CPP using SphygmoCor[®] was found to be a superior predictor of atrial fibrillation (AF). Indeed, it was *superior* in predictive qualities to well established clinical and echocardiographic risk factors.
- An African American Study in young men found central blood pressure using SphygmoCor[®] holds greater prognostic value than conventional brachial blood pressure as central pressure more aptly reflects the load encountered by the heart. SphygmoCor[®] detected elevated central pressures in these patients, not detectable with a cuff.

- US Food and Drug Administration (FDA) announced new guidance for industry in the development of drugs against diabetes (specifically type 2). Of note to AtCor was the rationale for the guidance (which is typically followed by pharma in developing new drugs, but is not legally enforceable), namely to adequately assess cardiovascular (CV) risk during Phase 2 and Phase clinical trials.

FDA Guidance Update – CV Risk Assessment

New FDA guidance document a sign of things to come for drug developers.

In late 4Q CY08, the US Food and Drug Administration (FDA) announced new guidance for industry in the development of drugs against diabetes (specifically type 2). Of note to AtCor was the rationale for the guidance (which is typically followed by pharma in developing new drugs, but is not legally enforceable), namely to adequately assess cardiovascular (CV) risk during Phase 2 and Phase 3 clinical trials. The guidance is largely in response to associated CV safety issues with drugs in this field.

CV risk now becoming a key determinant in diabetes trials.

The guidance document recommends that all sponsors of diabetic drugs in Phase 2 or Phase 3 clinical development should establish that the therapy does not result in an unacceptable increase in cardiovascular risk. Further, an independent cardiovascular endpoint committee should be established to examine any cardiovascular events (cardiovascular mortality, myocardial infarction, and stroke) during the trial period. Other risk factors would be considered, which bodes well for AtCor's SphygmoCor[®] technology in assessing central pressures, which have shown to be ~50% more predictive of CV events than standard peripheral "cuff" measures.

Longer clinical trials, could translate to higher value contracts, amortised over a longer period for AtCor.

Late stage clinical trials will also need to recruit older patients, with more CV risk factors or with renal damage, or both, and will need to prospectively study them for at least 12 months, not the 3-6 months as has been typical. Indeed longer term CV risk (> 2 years) data for such chronically administered drugs is also required. To place context to this market opportunity in type 2 diabetes, we note the FDA sent letters to over 100 drug sponsors, representing one letter for every type 2 diabetic drug application it has on file.

Further initiatives in cardiac safety ongoing.

In our view, this guidance dovetails nicely within the general push to increase the safety testing of in-development drugs via the Critical Path Initiative and the Reagan-Udall Foundation. For example, the FDA has established the Cardiovascular Drug Safety and Biomarker Research Program. Its goal is to establish an evidence-based framework for determining the clinical usefulness of cardiovascular biomarkers. We understand central pressure biomarkers are a key consideration in this initiative, and an important determinant in generating long term, recurring revenues in this market segment for AtCor.

Outlook

Based on FY09 product sales guidance, in the absence of major FX movements in the 2H, we are forecasting an FY09 NPAT loss of \$1.6m, down significantly on pcp and 23.8% ahead of our previous estimates. We have increased our FY10, FY11 EPS estimates to 0.5c and 3.0c, respectively principally due to our increased confidence in the sales funnel and penetration into the pharma clinical trials market. AtCor currently trades on a forward EV/Sales multiple of 1.0x, which places it at the bottom end of comparable sector multiples, despite demonstrable and significant product revenue growth.

Price target of \$0.30.

We maintain our Speculative Buy recommendation and blended valuation price target of \$0.30.

ACG - Summary of Forecasts

ACG \$ 0.175

PROFIT & LOSS SUMMARY (A\$000s)							
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E	FY11E
Total Revenue	5,736	3,624	7,363	6,507	11,706	14,364	16,668
Growth (pcp)	33.9%	21.0%	28.4%	79.6%	59.0%	22.7%	16.0%
Cost of Goods Sold	(1,011)	(528)	(1,286)	(932)	(1,799)	(2,405)	(2,898)
Gross Margin	79.2%	82.7%	80.1%	82.7%	82.5%	82.5%	82.5%
Net Operating Revenue	(5,251)	(1,526)	(3,579)	304	(1,418)	723	3,469
Direct R&D Expenses	0	0	0	0	0	0	0
EBITDA	(5,917)	(1,776)	(3,997)	140	(1,639)	702	3,358
Dep'n/Other Amort'n	(162)	(60)	(148)	(87)	(140)	(152)	(168)
EBIT	(6,079)	(1,836)	(4,145)	53	(1,778)	550	3,190
Net Interest	666	250	418	164	221	21	111
Pre-Tax Profit	(5,413)	(1,586)	(3,727)	217	(1,557)	570	3,301
Tax Expense	230	(91)	(66)	(37)	(37)	0	0
Minorities	0	0	0	0	0	0	0
NPAT	(5,183)	(1,677)	(3,793)	180	(1,594)	570	3,301
Growth (pcp)	-29.4%	27.2%	26.8%	110.7%	58.0%	310.0%	148.7%
Net Abnormals	0	0	0	0	0	0	0
Reported Profit	(5,183)	(1,677)	(3,793)	180	(1,594)	570	3,301

PER SHARE DATA							
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E	FY11E
Reported EPS (c)	(5.2)	(1.7)	(3.8)	0.2	(1.4)	0.5	3.0
Growth (pcp)	n/a	-46.7%	-26.8%	-110.7%	-61.8%	-135.8%	478.7%
EPS Pre-Net R&D (c)	(5.4)	(2.0)	(4.3)	(0.2)	(2.0)	(0.0)	3.0
Growth (pcp)	n/a	8509.1%	-20.5%	-92.3%	-53.5%	-98.7%	-11276.3%
Dividend (c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%	0%	0%
Gross CF per Share (c)	(4.6)	(2.6)	(4.0)	(0.2)	(0.7)	1.6	2.0
NTA per share (c)	9.1	7.6	5.7	5.9	3.7	4.3	7.3

KEY RATIOS							
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E	FY11E
EBITD/Sales Margin %	-103.2%	-49.0%	-54.3%	2.2%	-14.0%	4.9%	20.1%
EBIT/Sales Margin %	-106.0%	-50.7%	-56.3%	0.8%	-15.2%	3.8%	19.1%
Current ratio (x)	4.5	5.0	2.9	3.3	2.6	2.7	3.5
Net Debt : Equity (%)	-74.6%	-58.6%	-55.6%	-47.9%	-52.3%	-79.4%	-72.8%
ROE (%)	-43.6%	-16.8%	-49.4%	2.6%	-31.1%	12.5%	50.6%
Dividend Payout Ratio (%)	n/a	n/a	n/a	n/a	0.0%	0.0%	0.0%

VALUATION MULTIPLES							
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E	FY11E
PE Ratio (x)	n/a	n/a	n/a	n/a	n/a	33.7	5.8
Dividend Yield (%)	n/a	n/a	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a	19.4	3.4
EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a	24.8	3.6

CAPITAL RAISING ASSUMPTIONS							
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E	FY11E
Shares Issued (m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

BALANCE SHEET SUMMARY							
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E	FY11E
Cash	6,999	4,571	3,316	2,924	2,241	3,865	5,959
Receivables	1,446	1,660	1,877	4,195	2,878	1,787	3,311
Pre Payments	0	0	0	0	0	0	0
Inventories	383	370	401	649	720	962	1,159
Investments	0	0	0	0	0	0	0
Other	196	115	100	159	159	159	159
Total Current Assets	9,024	6,716	5,694	7,927	5,998	6,773	10,588
Investments	0	0	0	0	0	0	0
Inventories	0	0	0	0	0	0	0
Receivables*	1,828	1,903	1,684	0	0	0	0
Property Plant & Equip	284	298	350	368	449	513	550
Intangibles	268	245	222	200	173	147	125
Deferred Tax Assets	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Total Non-Current Assets	2,380	2,446	2,256	568	622	661	675
TOTAL ASSETS	11,404	9,162	7,950	8,495	6,620	7,433	11,263
Accounts Payable	1,985	1,220	1,953	2,351	2,261	2,474	2,980
Revenue in Advance	0	0	0	0	0	0	0
Borrowings	0	0	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0	0	0
Provisions	19	123	19	20	51	69	83
Total Current Liab	2,004	1,343	1,972	2,371	2,313	2,542	3,063
Borrowings	0	0	0	0	0	0	0
Provisions	18	20	17	20	20	20	20
Other	0	0	0	0	0	0	0
Total Non-Current Liab	18	20	17	20	20	20	20
TOTAL LIABILITIES	2,022	1,363	1,989	2,391	2,333	2,562	3,083
TOTAL EQUITY	9,382	7,799	5,961	6,104	4,287	4,871	8,180

* Assumes director loans repaid in FY10

CASH FLOW SUMMARY							
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	(6,079)	(1,836)	(4,145)	53	(1,778)	550	3,190
Add: Depreciation	121	40	102	65	102	130	149
Amortisation	41	20	46	22	38	22	19
Change in Pay.	597	(765)	(32)	398	308	212	507
Change in Rev. in Ad.	0	0	0	0	0	0	0
Less: Tax paid	230	(91)	(66)	(37)	(37)	0	0
Net Interest	666	250	418	164	221	21	111
Change in Rec.	(65)	(214)	(287)	(634)	683	1,092	(1,525)
Change in Inv.	(89)	13	(18)	(248)	(319)	(242)	(197)
Gross Cashflows	(4,578)	(2,583)	(3,982)	(217)	(782)	1,784	2,254
Capex	(137)	(53)	(168)	(82)	(200)	(160)	(160)
Free Cashflows	(4,715)	(2,636)	(4,150)	(299)	(982)	1,624	2,094
Dividends Paid	0	0	0	0	0	0	0
Net Cash Flow	(4,715)	(2,636)	(4,150)	(299)	(982)	1,624	2,094

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