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AtCor Medical Holdings Limited (ACG)

Speculative Buy

Russian Approval; Major Clinical Evidence Underpins SphygmoCor® Opportunity

\$0.09

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Key Points

AtCor recently announced Russian registration of SphygmoCor®.

Guidance of ~US\$8m in potential market sales (400 units) to the Russian market over the next 3 years possible.

Polyservice, LLC to sell SphygmoCor® into Russian market.

Two recent major clinical studies reported further indicate strong predictive qualities of central blood pressure measurement in cardiovascular disease (CVD).

Summary

Market Capitalisation (M)	\$9.0
Share Price	\$0.09
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 31/3/08 (M)	\$3.7
Est. Cash Burn Per Quarter (M)	\$0.8
Market Cap.: Cash Ratio	2.4

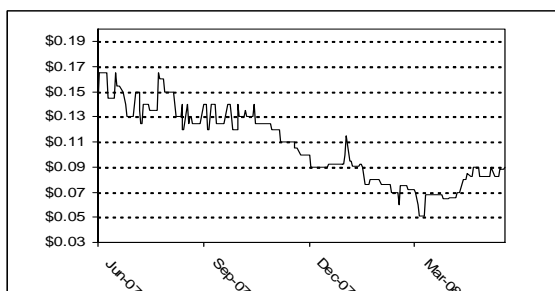
Our View

- We view the Russian market opportunity as significant for AtCor in both the research/clinical setting but also in the clinical trial testing market over the medium to long term. Russia is an important emerging clinical research market. The country boasts a centralised healthcare system comprising very large hospitals, each specialising in one therapeutic area, a pool of physicians eager to conduct clinical research; and potential for sustained future growth. The growth of Russia's clinical research market in the past five years has seen 2x the number of clinical trials in 2006 v 2000. Moreover, the number of patients participating in global clinical trials conducted in Russia more than tripled between 2002 and 2006. The Russian Contract Research Organisation (CRO) market is estimated between US\$150 and US\$300 million.
- The Anglo-Cardiff Trial II was the largest ever trial of its kind comparing central pressures with peripheral (cuff) blood pressure measurements. Over 10,000 patients had their central pressures measured with SphygmoCor® (see Appendix 1). Crucially, the study authors identified that >70% of patients with high-normal brachial pressures (120/80 to 139/89) had similar aortic (central) pressures as stage 1 hypertensive patients (140/90 to 159/99), which typically requires drug intervention regimes due to increased risk of CVD outcomes such as renal disease, stroke or heart attack. In other words, using SphygmoCor® can allow clinicians to intervene in the hypertensive disease process much sooner than would ordinarily be the case. We note the editorial comment to the study suggesting a paradigm shift in clinician/patient management to central pressures in light of this trial and previous validation studies. SphygmoCor® remains the world's only device able to measure central heart blood pressure non-invasively, positioning AtCor nicely in the space.
- In the second 4.5 year study on >1,000 patients, clinical investigators found elevated central pressures were superior in predictability of CVD events than cuff blood pressure, high cholesterol and smoking (see Appendix 1), which supports previous major studies including Strong Heart and CAFÉ (see TC initiating research report). We believe these and other (historic) trials will facilitate AtCor's regulatory package for US reimbursement initiatives during CY08. We believe the continued clinical outcome trials will "turn the tide" toward major clinical adoption of central pressure measurements in CVD management and thereby drive SphygmoCor® adoption. As a result of the Russian approval and major outcome study data we have not altered our forward estimates. We maintain our Speculative Buy recommendation and price target of \$0.24, noting further re-rating triggers are expected before FY09.

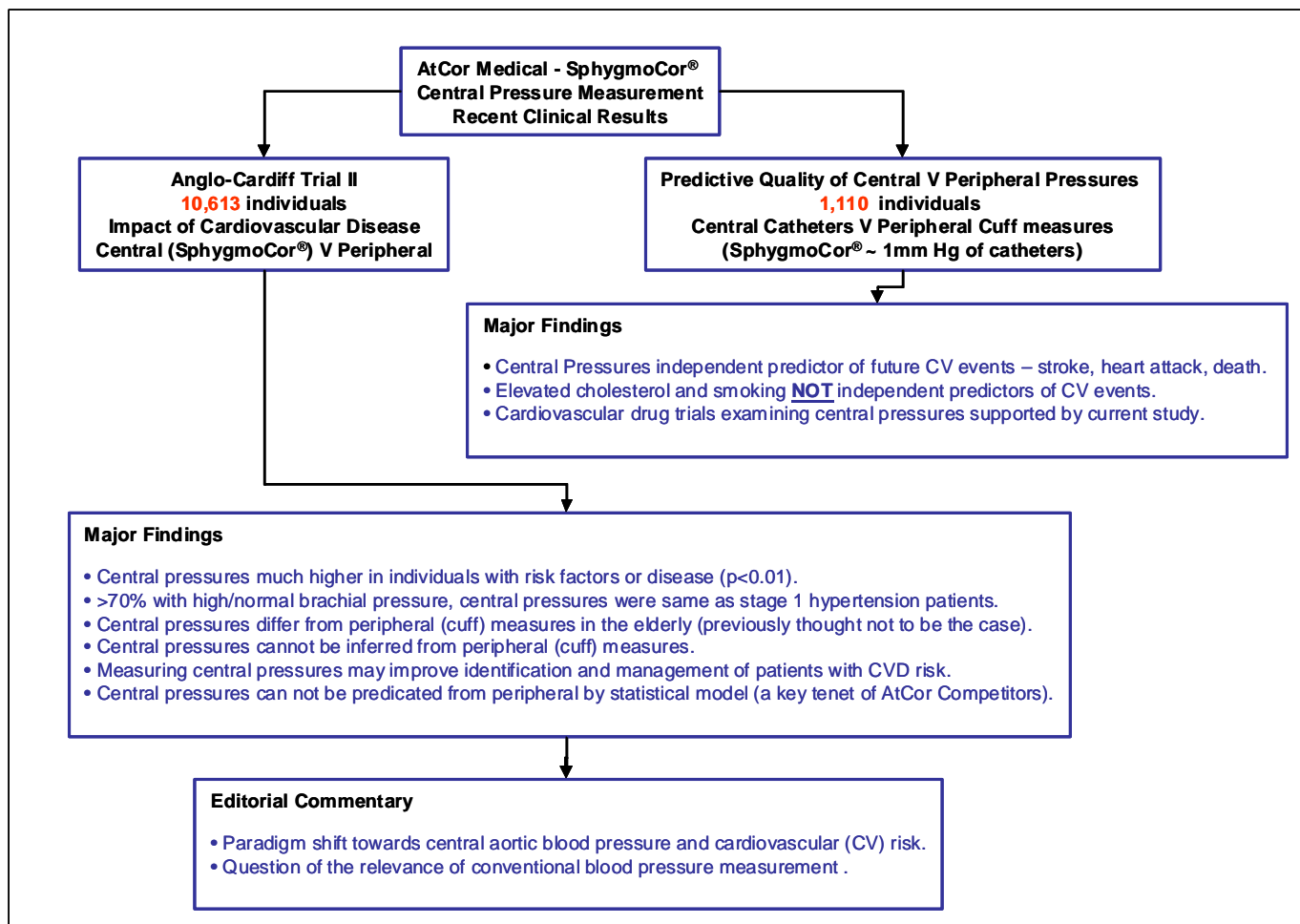
Key Financials (A\$'000)

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%

Share Price Graph (A\$)



APPENDIX 1 – RECENT MAJOR CLINICAL STUDIES



Source: Taylor Collison, Janowski et al 2008; McEniery et al., 2008

ACG - Summary of Forecasts

ACG \$ 0.09

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY06A	FY07A	FY08E	FY09E	FY10E
Total Revenue	4,285	5,736	7,750	9,791	13,434
Growth (pcp)	22.8%	33.9%	35.1%	26.3%	37.2%
Cost of Goods Sold	(965)	(1,011)	(1,190)	(1,595)	(2,233)
Gross Margin	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
Growth (pcp)	-35.3%	-29.4%	20.6%	34.3%	310.0%
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
Growth (pcp)	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)
Growth (pcp)	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	92.7
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITD (x)	0.6	n/a	n/a	n/a	32.8
EV/EBIT (x)	0.6	n/a	n/a	n/a	200.1

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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