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AtCor Medical Holdings Limited (ACG)

Speculative Buy

Grows FY09 Product Sales by 74%

\$0.18

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AtCor has reported preliminary (unaudited) FY09 financial results with an NPAT loss expected to be \$1.6m, below expectations.

FY09 sales of \$11.2m were up 73.9% on pcp and in line with expectations and management guidance.

On a constant currency basis, sales were up 47% on pcp.

Gross margins of 84.5% were up 400bps on pcp and 200bps ahead of expectations.

Company expects continued strong growth in FY10.

Installed base of >2,000 SphygmoCor[®] systems at present.

Summary

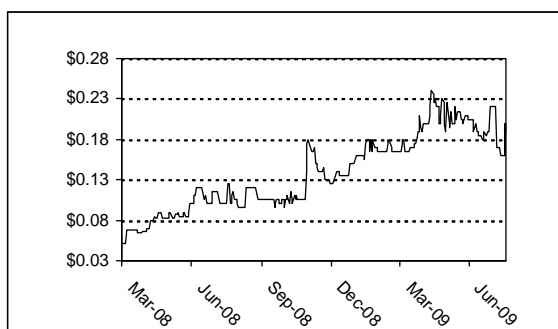
Market Capitalisation (M)	\$18.0
Share Price	\$0.18
Price Target	\$0.30
52 Week High	\$0.24
52 Week Low	\$0.09
Av. Monthly Volume (Yr Rolling)(M)	1.4
Cash as at 30/6/09 (M)	\$3.4
Est. Cash Burn Per Quarter (M)	n/a
NTA Per Share	\$0.06

Our View

- The resilience of the pharma clinical trial sales/service model, during FY09 despite economic headwinds, was encouraging. This is reflected in the Company reporting a 99% increase in sales to pharma companies on pcp. In our view, this highlights the growing importance of central pressure measures in clinical drug development, both as a safety tool, but also a key drug differentiator, given this pressure measurement offers superior predictive measures of cardiovascular risk and central drug effects than standard peripheral (cuff) measures. The product and service offering may be further enhanced by the introduction by AtCor of the WISDOM system in 4Q09, allowing SphygmoCor[®] test results to be transferred instantaneously at the click of button for quality review, processing and transmittal to trial sponsors. We anticipate significant further contracts during FY10.
- Albeit off a low base in our view, clinical practice sales grew 46% on pcp. We believe the majority of these sales were based in the US. We do note limited private payer reimbursement is available to clinicians who utilise an unlisted CPT code in the US 93799 "unlisted cardiovascular service or procedure". The Company continues to invest resources in securing local reimbursement decisions (state based), which build the dossier for targeting a national reimbursement filing with the American Medical Association (AMA). The Company has not issued guidance on filing dates for CPT 1 coding at present.
- Despite sales guidance being met, we have revised our FY09 NPAT loss estimate down by 100.8% to \$1.6m, reflecting higher than anticipated product development expenditures, though partially offset by better than expected gross margins. Despite the loss, we note net cash generation of \$0.1m was recorded for FY09, reflecting operating cash outlays of \$0.64m and \$0.7m in director loan repayments. A further \$1.1m is expected from director loan repayments in FY10. We have adjusted our FY10 NPAT expectations from \$0.6m to a \$0.4m NPAT loss, on higher product development and clinical trial expenditure assumptions. AtCor currently trades on an FY09 EV/sales multiple of 1.3x and a forecast 1.1x FY10 EV/sales. As a result of a lower than expected FY10 outlook, we have cut our blended valuation price target by 10% to \$0.30. We continue with our Speculative Buy recommendation.

Key Financials (A\$'000)

Year End	2008	2009	2010
	Actual	Est.	Est.
Product Sales	6,451	11,216	13,557
Total Revenue	7,363	12,337	14,200
COGS	(1,286)	(1,738)	(2,101)
Net Op. Rev	(3,579)	(1,467)	(295)
EBITDA	(3,997)	(1,688)	(338)
EBIT	(4,145)	(1,828)	(470)
Reported Profit	(3,793)	(1,606)	(428)
Reported EPS (c)	(3.8)	(1.6)	(0.4)
PE Ratio (x)	n/a	n/a	n/a
ROE (%)	-49.4%	-28.7%	-8.5%

Share Price Graph (A\$)

APPENDIX 1 – Changes to Forecasts

Changes to Forecasts

	FY09E			FY10E			FY11E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Product Sales (\$m)	11.2	11.2	0.1%	13.7	13.6	-1.0%	16.6	18.2	9.8%
EBITDA (\$m)	(0.9)	(1.7)	87.6%	0.7	(0.3)	-148.2%	3.4	3.5	2.7%
EBIT (\$m)	(1.0)	(1.8)	82.8%	0.6	(0.5)	-178.3%	3.2	3.3	4.2%
NPAT (\$m)	(0.8)	(1.6)	100.8%	0.7	(0.4)	-161.1%	3.4	3.4	1.3%
EPS (c)	(0.8)	(1.6)	100.8%	0.7	(0.4)	-161.1%	3.4	3.4	1.3%

Source: Taylor Collison estimates

ACG - Summary of Forecasts ACG \$ 0.18

PROFIT & LOSS SUMMARY (A\$000s)						
Period	FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
Product Sales	4,859	6,451	11,216	13,557	18,219	21,443
growth (%)	45.7%	32.8%	73.9%	20.9%	38.0%	32.0%
Total Revenue	5,736	7,363	12,337	14,200	18,327	21,704
Cost of Goods Sold	(1,011)	(1,286)	(1,738)	(2,101)	(2,824)	(3,324)
Gross Margin	79.2%	80.1%	84.5%	84.5%	84.5%	84.5%
Total Operating Expenses	(10,987)	(10,942)	(13,804)	(14,495)	(14,728)	(16,099)
Net Operating Revenue	(5,251)	(3,579)	(1,467)	(295)	3,600	5,605
Direct R&D Expenses	0	0	0	0	0	0
EBITDA	(5,917)	(3,997)	(1,688)	(338)	3,492	5,344
Dep'n/Other Amort'n	(162)	(148)	(140)	(132)	(157)	(169)
EBIT	(6,079)	(4,145)	(1,828)	(470)	3,335	5,175
Net Interest	666	418	221	42	108	260
Pre-Tax Profit	(5,413)	(3,727)	(1,606)	(428)	3,443	5,436
Tax Expense	230	(66)	0	0	0	0
Minorities	0	0	0	0	0	0
NPAT	(5,183)	(3,793)	(1,606)	(428)	3,443	5,436
Growth (pcp)	-29.4%	26.8%	57.6%	n/a	68.5%	0.0%
Net Abnormals	0	0	0	0	0	0
Reported Profit	(5,183)	(3,793)	(1,606)	(428)	3,443	5,436

PER SHARE DATA						
Period	FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
Reported EPS (c)	(5.2)	(3.8)	(1.6)	(0.4)	3.4	5.4
Growth (pcp)	n/a	-26.8%	-57.6%	n/a	-905.3%	57.9%
EPS Pre-Net R&D (c)	(5.4)	(4.3)	(2.2)	(1.0)	3.4	5.4
Growth (pcp)	n/a	-20.5%	-48.5%	n/a	-435.1%	57.9%
Dividend (c)	0.0	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%	0%
Gross CF per Share (c)	(4.6)	(3.5)	0.1	0.6	2.2	5.5
NTA per share (c)	9.1	5.7	5.1	4.7	8.2	13.1

KEY RATIOS						
Period	FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
EBITD/Sales Margin %	-103.2%	-54.3%	-13.7%	-2.4%	19.1%	24.6%
EBIT/Sales Margin %	-106.0%	-56.3%	-14.8%	-3.3%	18.2%	23.8%
Current ratio (x)	4.5	2.9	2.7	2.7	3.3	4.0
Net Debt : Equity (%)	-74.6%	-55.6%	-65.3%	-80.0%	-71.7%	-83.0%
ROE (%)	-43.6%	-49.4%	-28.7%	-8.5%	52.5%	50.7%
Dividend Payout Ratio (%)	n/a	n/a	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES						
Period	FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
PE Ratio (x)	n/a	n/a	n/a	n/a	5.2	3.3
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	n/a	n/a	n/a	3.5	1.3
EV/EBIT (x)	n/a	n/a	n/a	n/a	3.6	1.4

CAPITAL RAISING ASSUMPTIONS						
Period	FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
Shares Issued (m)	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
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET SUMMARY						
Period	FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
Cash	6,999	3,316	3,416	3,870	5,941	10,918
Receivables	1,446	1,877	3,028	1,762	3,644	4,289
Pre Payments	0	0	0	0	0	0
Inventories	383	401	785	949	1,275	1,501
Investments	0	0	0	0	0	0
Other	196	100	159	159	159	0
Total Current Assets	9,024	5,694	7,388	6,740	11,019	16,708
Investments	0	0	0	0	0	0
Inventories	0	0	0	0	0	0
Receivables*	1,828	1,684	0	0	0	0
Property Plant & Equip	284	350	381	475	528	527
Intangibles	268	222	173	147	125	106
Other	0	0	0	0	0	0
Total Non-Current Assets	2,380	2,256	554	622	653	634
TOTAL ASSETS	11,404	7,950	7,942	7,362	11,672	17,341
Accounts Payable	1,985	1,953	2,633	2,440	3,279	4,074
Revenue in Advance	0	0	0	0	0	0
Borrowings	0	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0	0
Provisions	19	19	56	68	91	107
Total Current Liab	2,004	1,972	2,690	2,508	3,371	4,181
Borrowings	0	0	0	0	0	0
Provisions	18	17	20	20	20	0
Other	0	0	0	0	0	0
Total Non-Current Liab	18	17	20	20	20	0
TOTAL LIABILITIES	2,022	1,989	2,710	2,528	3,391	4,181
TOTAL EQUITY	9,382	5,961	5,232	4,834	8,282	13,160

* Assumes director loans repaid in FY10

CASH FLOW SUMMARY						
Period	FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(6,079)	(4,145)	(1,828)	(470)	3,335	5,175
Add: Depreciation	121	102	102	110	138	153
Amortisation	41	46	38	22	19	16
Change in Pay.	597	(32)	680	(193)	839	795
Change in Rev. in Ad.	0	0	0	0	0	0
Less: Tax paid	230	(66)	0	0	0	0
Net Interest	666	418	221	42	108	260
Change in Rec.	(65)	(287)	533	1,266	(1,881)	(648)
Change in Inv.	(89)	(18)	(384)	(164)	(326)	(226)
Other	(38)	504	709	0	0	0
Gross Cashflows	(4,616)	(3,478)	71	614	2,231	5,526
Capex	(137)	(168)	(132)	(160)	(160)	(200)
Free Cashflows	(4,753)	(3,646)	(61)	454	2,071	5,326
Dividends Paid	0	0	0	0	0	0
Exchange Rate Adjustments	(59)	(37)	161	0	0	0
Net Cash Flow	(4,812)	(3,683)	100	454	2,071	5,326

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