



29 October 2009

# AtCor Medical Holdings Limited (ACG)

Speculative Buy

Central Pressure Paradigm Drawing Ever Closer

\$0.19

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## Key Points

AtCor has reported on final data from an independent clinical study of 2,405 patients using SphygmoCor® as a measure of central pressure.

Central Pulse Pressure (CPP) was found to be independently associated with adverse cardiovascular (CV) outcome.

Traditional cuff measures of blood pressure were not predictive of events.

## Summary

Market capitalisation (M)	\$19.0
Share price	\$0.19
Price target	\$0.54
52 week low	\$0.11
52 week high	\$0.24
Ave Monthly Vol (M)	1.926
Est. Cash as at 20/10/09 (M)	\$3.0
NTA per share	\$0.06

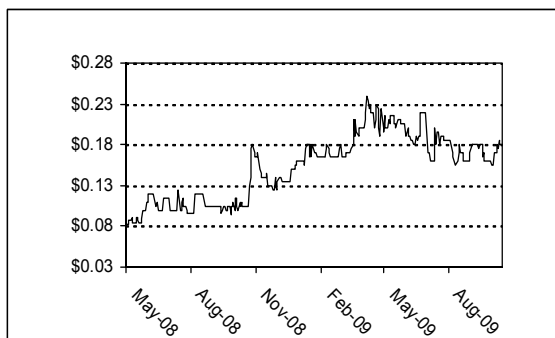
## Our View

- Importance of Central Pulse Pressure Revealed** – CPP, that is the difference between central systolic and diastolic pressure, was much more predictive ( $p < 0.001$ ) of adverse CV outcome than brachial pulse pressure ( $p = 0.052$ ) over a period of 5.6 years. CV events included myocardial infarctions, coronary heart disease, stroke, congestive heart failure. Though the study population represented 2,405 American Indians the authors note the results are applicable to a general US population, given the increased prevalence of diabetes and obesity.
- Clinical Utility Apparent** – CPP  $\geq 50$ mm Hg compared to CPP  $< 50$ mm Hg was significantly related to outcome in men and women, in participants +/- diabetes and older/younger than ages 60 and 65 years (see Appendix 1). Indeed, a patient with CPP  $\geq 50$ mm Hg was 70% (hazard ratio, HR = 1.7) more likely to develop CV disease within 5.6 years than a patient with CPP  $< 31$ mm Hg. The stratification of risk above 50mm Hg is meaningful from a clinician standpoint as it provides for a specific risk threshold. Preliminary evidence shows when CPP can be lowered, CV mortality/morbidity/target organ damage can be reduced. In the age of healthcare reforms, with a focus on intervention earlier in the disease process versus late stage treatments and hospital admissions, the pertinence of CPP as an independent predictor of adverse CV outcomes is clinically very relevant.
- Reimbursement Filing Likely by Nov 2010, Strong 2H10 Guided** – AtCor also revealed its reimbursement strategy for SphygmoCor® at the recent AGM. The Company is aiming to file for national reimbursement in the US via CPT 1 coding by Nov 2010. AtCor has engaged consultants to support its filing initiatives. In the interim, the Company continues to receive limited state based (local) payer coverage using unlisted cardiovascular codes, and intends to further develop this coding opportunity as a prelude to national initiatives, which require widespread use of a technology to gain a CPT 1 code. The Company is also negotiating on four pharmaceutical clinical trial deals, which are expected to commence during FY10 and gross margins are expected to increase by at least 50bps to  $> 85\%$ .
- Outlook** – The recent study reinforces the significant body of clinical evidence building around central pressure as a key measure of CV risk, versus traditional brachial (cuff) measures. In our view, AtCor continues to enjoy a near monopoly within both the pharmaceutical testing market and early adopter clinician sales with SphygmoCor®. As a result of reimbursement guidance, we have revised our FY11, FY12 forecasts (Appendix 2) and due to increasing FX headwinds, have cut our FY10 NPAT loss from \$0.4m to \$0.8m on product sales growth of 14.2% (AUD/USD = 0.9). We continue with our Speculative Buy recommendation and have upgraded our blended valuation (DCF/discounted 18.0x FY11 EPS) and price target by 24cps to \$0.54 owing to a firmer reimbursement outlook which in our view will drive earnings substantially from FY11.

## Key Financials (A\$'000)

Year End	2009	2010	2011
	Actual.	Est.	Est.
Product Sales	11,209	12,796	18,710
<b>Total Revenue</b>	<b>12,400</b>	<b>13,418</b>	<b>18,802</b>
<b>COGS</b>	<b>(1,740)</b>	<b>(1,881)</b>	<b>(2,713)</b>
Net Op. Rev	(1,508)	(640)	4,515
<b>EBITDA</b>	<b>(1,750)</b>	<b>(662)</b>	<b>4,422</b>
EBIT	(1,926)	(797)	4,260
<b>Reported Profit</b>	<b>(1,691)</b>	<b>(775)</b>	<b>4,352</b>
<b>Reported EPS (c)</b>	<b>(1.7)</b>	<b>(0.8)</b>	<b>4.4</b>
<b>PE Ratio (x)</b>	<b>n/a</b>	<b>n/a</b>	<b>4.4</b>
ROE (%)	-31.9%	-18.2%	72.0%

## Share Price Graph (A\$)



## Appendix 1 – Summary of Effects of CPP $\geq 50$ mm Hg

Performance of Central PP $\geq 50$ mm Hg for Prediction of Cardiovascular Outcome in Population Subsets				
Variable	n	HR (95% CI)	p Value	Interaction p Value
<b>Sex</b>				
Men	838	2.06 (1.39-3.04)	<0.001	0.94
Women	1,567	2.03 (1.55-2.65)	<0.001	
<b>Diabetes mellitus</b>				
Absent	1,259	1.91 (1.29-2.83)	0.001	0.96
Present	1,122	1.84 (1.41-2.39)	<0.001	
<b>Age, yrs</b>				
<60	994	2.51 (1.59-3.95)	<0.001	0.079
$\geq 60$	1,411	1.53 (1.19-1.97)	0.001	
<65	1,559	1.91 (1.39-2.64)	<0.001	0.47
$\geq 65$	846	1.64 (1.20-2.22)	0.002	

CI = confidence interval; PP = pulse pressure.

Source: Roman et al., JACC 2009

## Appendix 2 – Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Product Sales (\$m)	13.6	12.8	-5.9%	18.6	18.7	0.6%	21.7	23.5	8.2%
EBITDA (\$m)	(0.3)	(0.7)	120.7%	3.8	4.4	16.4%	5.6	7.7	37.1%
EBIT (\$m)	(0.4)	(0.8)	99.4%	3.6	4.3	18.3%	5.4	7.5	39.0%
NPAT (\$m)	(0.4)	(0.8)	93.7%	3.7	4.4	17.6%	5.7	7.8	36.7%
EPS (c)	(0.4)	(0.8)	93.7%	3.7	4.4	17.6%	5.7	7.8	36.7%

Source: Taylor Collison estimates

## ACG - Summary of Forecasts

ACG \$ 0.19

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Product Sales	6,451	11,209	12,796	18,710	23,473
growth (%)	32.8%	73.8%	14.2%	38.0%	32.0%
<b>Total Revenue</b>	<b>7,363</b>	<b>12,400</b>	<b>13,418</b>	<b>18,802</b>	<b>23,758</b>
Cost of Goods Sold	(1,286)	(1,740)	(1,881)	(2,713)	(3,404)
Gross Margin	80.1%	84.5%	85.3%	85.5%	85.5%
<b>Total Operating Expenses</b>	<b>(10,942)</b>	<b>(13,908)</b>	<b>(14,058)</b>	<b>(14,288)</b>	<b>(15,797)</b>
<b>Net Operating Revenue</b>	<b>(3,579)</b>	<b>(1,508)</b>	<b>(640)</b>	<b>4,515</b>	<b>7,962</b>
Direct R&D Expenses	0	0	0	0	0
<b>EBITDA</b>	<b>(3,997)</b>	<b>(1,750)</b>	<b>(662)</b>	<b>4,422</b>	<b>7,677</b>
Dep'n/Other Amort'n	(148)	(176)	(135)	(162)	(169)
<b>EBIT</b>	<b>(4,145)</b>	<b>(1,926)</b>	<b>(797)</b>	<b>4,260</b>	<b>7,508</b>
Net Interest	418	242	23	92	285
<b>Pre-Tax Profit</b>	<b>(3,727)</b>	<b>(1,684)</b>	<b>(775)</b>	<b>4,352</b>	<b>7,793</b>
Tax Expense	(66)	(7)	0	0	0
Minorities	0	0	0	0	0
<b>NPAT Normalised*</b>	<b>(3,635)</b>	<b>(1,946)</b>	<b>(775)</b>	<b>4,352</b>	<b>7,793</b>
<b>NPAT</b>	<b>(3,793)</b>	<b>(1,691)</b>	<b>(775)</b>	<b>4,352</b>	<b>7,793</b>
Growth (pcp)	26.8%	55.4%	54.2%	n/a	79.1%
Net Abnormals	0	0	0	0	0
<b>Reported Profit</b>	<b>(3,793)</b>	<b>(1,691)</b>	<b>(775)</b>	<b>4,352</b>	<b>7,793</b>

PER SHARE DATA					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Reported EPS (c)	(3.8)	(1.7)	(0.8)	4.4	7.8
Growth (pcp)	-26.8%	55.4%	54.2%	n/a	79.1%
EPS Pre-Net R&D (c)	(4.3)	(2.3)	(1.4)	4.4	7.8
Growth (pcp)	-20.5%	45.3%	41.3%	n/a	79.1%
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	0.1	2.9	7.8
NTA per share (c)	5.7	4.5	3.7	8.1	15.4

KEY RATIOS					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBITD/Sales Margin %	-54.3%	-14.1%	-4.9%	23.5%	32.3%
EBIT/Sales Margin %	-56.3%	-15.5%	-5.9%	22.7%	31.6%
Current ratio (x)	2.9	2.3	2.4	3.2	4.3
Net Debt : Equity (%)	-55.6%	-73.5%	-85.8%	-73.5%	-85.2%
ROE (%)	-49.4%	-31.9%	-18.2%	72.0%	65.9%
Dividend Payout Ratio (%)	n/a	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
PE Ratio (x)	n/a	n/a	n/a	4.4	2.4
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	2.4	1.4	1.2	0.7	0.2
EV/EBITDA (x)	n/a	n/a	n/a	2.9	0.8
EV/EBIT (x)	n/a	n/a	n/a	3.0	0.8

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	3,321	6,044	13,144
Receivables	1,877	3,382	1,663	3,742	4,695
Pre Payments	0	0	0	0	0
Inventories	401	434	512	1,123	1,408
Investments	0	0	0	0	0
Other	100	139	139	139	139
<b>Total Current Assets</b>	<b>5,694</b>	<b>7,371</b>	<b>5,635</b>	<b>11,047</b>	<b>19,386</b>
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables*	1,684	0	0	0	0
Property Plant & Equip	350	352	459	519	525
Intangibles	222	177	133	89	45
Other	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>2,256</b>	<b>529</b>	<b>592</b>	<b>608</b>	<b>570</b>
<b>TOTAL ASSETS</b>	<b>7,950</b>	<b>7,900</b>	<b>6,227</b>	<b>11,655</b>	<b>19,956</b>
Accounts Payable	1,953	3,223	2,303	3,368	4,460
Borrowings	0	0	0	0	0
Provisions	19	4	26	37	47
Other	0	0	0	0	0
<b>Total Current Liab</b>	<b>1,972</b>	<b>3,227</b>	<b>2,329</b>	<b>3,405</b>	<b>4,507</b>
Borrowings	0	0	0	0	0
Provisions	17	28	28	28	28
Other	0	0	0	0	0
<b>Total Non-Current Liab</b>	<b>17</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>
<b>TOTAL LIABILITIES</b>	<b>1,989</b>	<b>3,255</b>	<b>2,357</b>	<b>3,433</b>	<b>4,535</b>
<b>TOTAL EQUITY</b>	<b>5,961</b>	<b>4,645</b>	<b>3,870</b>	<b>8,222</b>	<b>15,421</b>

\* Assumes director/ex-director loans repaid in FY10

CASH FLOW SUMMARY					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
<b>EBIT (excl Abs/Extr)</b>	<b>(4,145)</b>	<b>(1,926)</b>	<b>(797)</b>	<b>4,260</b>	<b>7,508</b>
Add: Depreciation	102	131	102	133	151
Amortisation	46	45	33	29	18
Change in Pay.	(32)	1,270	(920)	1,065	1,092
Less: Tax paid	(66)	0	0	0	0
Net Interest	418	242	23	92	285
Change in Rec.	(287)	179	1,719	(2,079)	(956)
Change in Inv.	(18)	(33)	(78)	(611)	(286)
Other	504	163	(16)	(7)	10
<b>Gross Cashflows</b>	<b>(3,478)</b>	<b>71</b>	<b>65</b>	<b>2,883</b>	<b>7,822</b>
Capex	(168)	(132)	(160)	(160)	(200)
<b>Free Cashflows</b>	<b>(3,646)</b>	<b>(61)</b>	<b>(95)</b>	<b>2,723</b>	<b>7,622</b>
Dividends Paid	0	0	0	0	0
Exchange Rate Adjustments	(37)	161	0	0	0
<b>Net Cash Flow</b>	<b>(3,683)</b>	<b>100</b>	<b>(95)</b>	<b>2,723</b>	<b>7,622</b>

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**Date Prepared:** October 2009

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