



21 August 2009

AtCor Medical Holdings Limited (ACG)

Speculative Buy

No Surprises Post July FY09 Result Preview; Pharma Contracts Remain the Driver

\$0.16

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AtCor has reported an FY09 NPAT loss of \$1.7m, slightly below July's results preview.

FY09 sales of \$11.2m were up 73.8% on pcp, as expected.

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

Company expects continued strong growth in FY10, though has yet to provided specific top line or bottom line guidance.

Cash of \$3.4m, up \$0.1m on pcp, principally from progressive director loan repayments (\$0.7m) and reduction in OCF burn to \$0.6m down 84.2% on pcp.

Summary

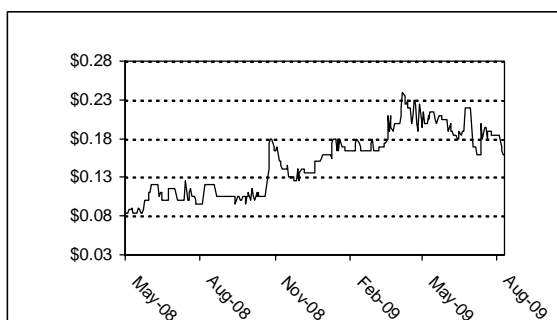
Market Capitalisation (M)	\$16.0
Share Price	\$0.16
Price Target	\$0.30
52 Week High	\$0.24
52 Week Low	\$0.09
Av. Monthly Volume (Yr Rolling)(M)	1.4
Cash as at 30/6/09 (M)	\$3.4
Est. Cash Burn Per Quarter (M)	n/a
NTA Per Share	\$0.06

Our View

- **Resilient Business Model** – We continue to highlight the resilience of the pharma clinical trial sales/service model for AtCor, with segment growth in sales of approx 100% in FY09. In our view, this strategy facilitates the long term clinician use of SphygmoCor® in central blood pressure testing by several means. (1) By validating its utility in discriminating potential drug effects, which drives ancillary testing by clinicians on eventual drug approvals and (2) Engaging practising clinicians during drug trials which increase familiarity prior to product reimbursement. Pharma clinical trial contracts will continue to underpin revenue growth in FY10.
- **Gross Margin Expansion** – Per July preview, GM was 200bps ahead of our previous estimates to 84.5%, driven by lower production costs of the new EM3 system and scale efficiencies. FX impact on COGS remains low, as majority of components sourced locally, with the exception of the sensor (tonometer).
- **Incremental Reimbursement Initiatives** – SphygmoCor® continues to receive reimbursement utilising an unlisted cardiovascular code. The Company's strategy is to generate state-based coverage decisions on SphygmoCor®, prior to seeking national reimbursement in the US. We are not explicitly forecasting a national reimbursement filing in the US during FY10, but it remains line ball in our view. A delay in the Nov filing has the net effect of pushing potential publication of a code for the technology until 1Q CY12, and therefore reimbursement payments by approximately 12 months.
- **FY10 Outlook** – AtCor has forecast strong sales growth in FY10, which we equate to 21.4% growth in product sales on pcp. We are forecasting an FY10 NPAT loss of \$0.4m, 76.1% ahead of pcp. AtCor currently trades on a forward FY10 EV/sales multiple of 0.9x, which given the four year sales CAGR of 35.4% seems understated. Though the apparent pharma contract wins seen thin since mid 4Q09, we believe a pick up in overall economic activity coupled with the tail end of the Northern hemisphere holiday season will see an increase in pharma clinical trial contracts in 1H10, which underpins our FY10 revenue assumptions. We continue with our Speculative Buy recommendation and our blended valuation (DCF/PE) of \$0.30.

Key Financials (A\$'000)

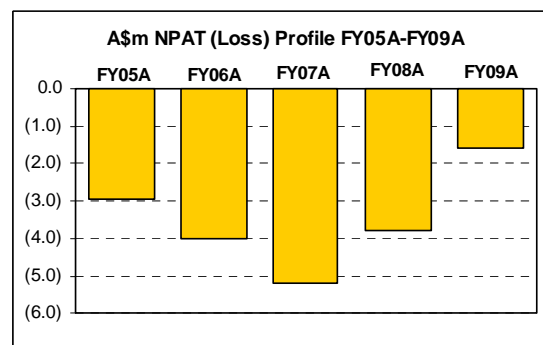
Year End	2009	2010	2011
	Actual.	Est.	Est.
Product Sales	11,209	13,612	18,560
Total Revenue	12,400	14,235	18,659
COGS	(1,740)	(2,110)	(2,877)
Net Op. Rev	(1,508)	(268)	3,879
EBITDA	(1,750)	(291)	3,780
EBIT	(1,926)	(427)	3,617
Reported Profit	(1,691)	(403)	3,716
Reported EPS (c)	(1.7)	(0.4)	3.7
PE Ratio (x)	n/a	n/a	4.3
ROE (%)	-31.9%	-9.1%	60.9%

Share Price Graph (A\$)

FY09 NPAT Loss Overview

AtCor has delivered a respectable FY09 result, driven largely via increased demand from pharmaceutical companies for SphygmoCor® units and associated services in clinical trials, which offset “soft” research sales. Importantly, sales to clinicians, for use in a clinical practice environment increased by 46% on pcp, though off a low base, in our view. The five year NPAT loss profile of AtCor is shown (across). The key takeaways from the result in our view are the growth in sales of 47% on a constant FX basis (73.8% reported), and significant gross margin expansion.

FY09 highlights were sales growth and GM expansion.



Source: AtCor reports; TC

Financial Highlights

The financial highlights for FY09 are shown below. Product development expenditures were 19.1% below expectations, off-set by higher than anticipated admin expenses in the 2H principally related to staff bonus payments and increased head count. The net EBITDA effect v reported was more or less in line with estimates.

Table 1: Financial Highlights FY09

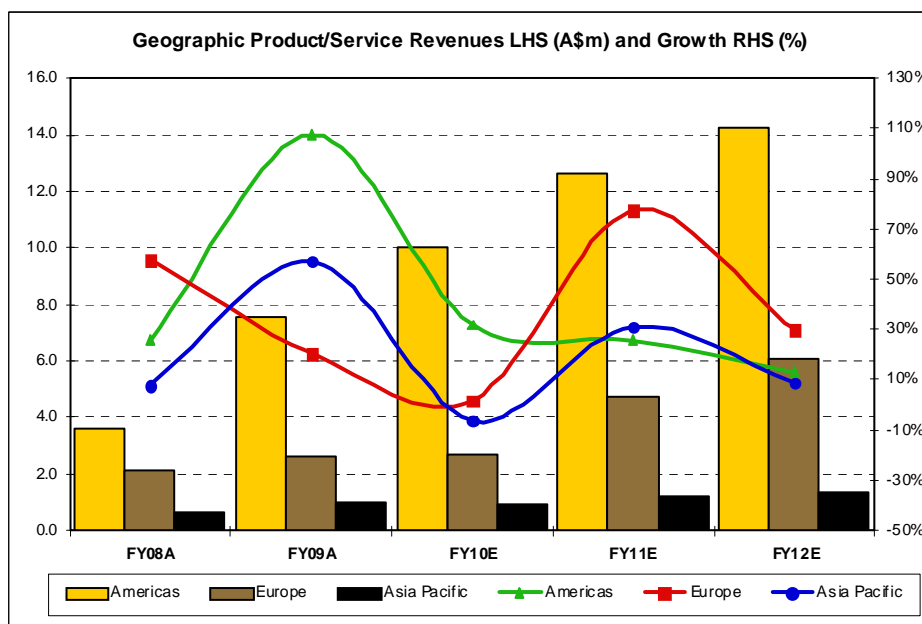
	FY08	FY09	Change (%)	TC est. FY09	Difference (%)
Product Sales	6.5	11.2	73.8%	11.2	0.1%
Marketing and Sales Expenditure	(4.9)	(6.6)	33.0%	(6.9)	-5.1%
Product Development Expenditure	(2.2)	(2.3)	5.2%	(2.8)	-19.1%
EBITDA	(4.0)	(1.8)	-56.2%	(1.7)	2.9%
Reported NPAT	(3.8)	(1.7)	-55.4%	(1.6)	5.7%

Source: AtCor; TC est.

Sizeable SphygmoCor® Sales Growth in FY09

AtCor recorded SphygmoCor® sales of \$8.6m with associated service income (supporting clinical trials) of \$2.6m. The majority of the service income is derived from the Americas, specifically the US. Total product revenues were up 73.8% on pcp, and 47% on a constant currency basis. Historic and forecast geographic sales and growth rates are shown below.

SphygmoCor sales of \$8.6m + \$2.6m in service revenues.



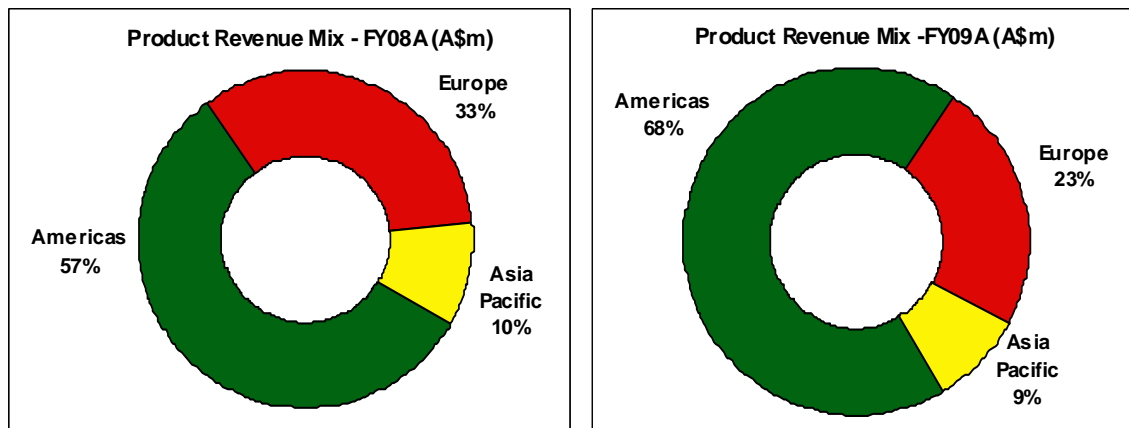
Product sales up 73.8% on pcp, 47% on a cc basis.

Source: AtCor; TC est.

We note average USD/AUD rates were 74.7c in FY09 versus 89.7c in FY08. AtCor benefits from a depreciating AUD as the majority of its sales are in USD, partially offset by a USD denominated cost base (principally marketing, regulatory), which we estimate to be US\$4.2m in FY09.

The Americas now constitute over two thirds of AtCor’s revenues compared to 57% in pcp, as shown below.

Americas represented >two thirds of product revenues in FY09.



Source: AtCor reports; TC estimates

The reported NPAT of \$0.2m in 1H09 included an FX gain of \$0.6m, relating to US\$ cash and receivable translations. Excluding the impact of FX, 2H09 revenues tracked slightly ahead of the 1H09 (\$6.2m v \$5.9m, respectively). 2H09 profit was also impacted by higher admin charges via staff bonuses and headcount expansion.

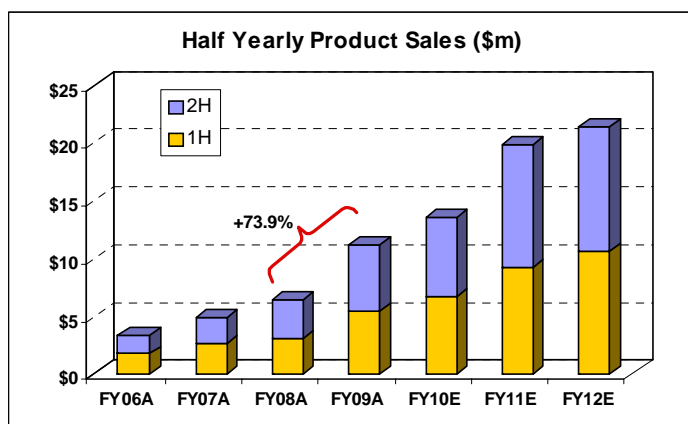
Table 2: Half on Half Splits

	FY08		FY09	
	1H	2H	1H	2H
Total Revenues	3.6	3.7	6.5	5.9
	<i>1H/2H Split</i>	<i>49.2%</i>	<i>50.8%</i>	<i>52.5%</i>
EBITDA	(1.8)	(2.2)	0.1	(1.9)
	<i>1H/2H Split</i>	<i>44.4%</i>	<i>n/a</i>	<i>n/a</i>
Reported Profit	(1.7)	(2.1)	0.2	(1.9)
	<i>1H/2H Split</i>	<i>44.2%</i>	<i>n/a</i>	<i>n/a</i>

Source: AtCor reports; TC est.

Our FY06-FY12 half yearly product sales estimates are shown (across). We are forecasting 21.4% product revenue growth in FY10, principally related to continued pharmaceutical clinical trial contracts, modest growth in Europe and flat Asia Pacific sales. We anticipate a more significant contribution for sales from clinicians for use in medical practice commencing in FY11 as further clinical literature is published through FY10 and increased emphasis on reimbursement (50% of est.

Reimbursement initiatives in FY09, FY10 to sow the seeds for FY11 growth.



Source: AtCor; TC est.

US\$4.2m was spent on driving clinical adoption in the US). We are forecasting product revenue growth of 38% and 32% for FY11 and FY12, respectively.

Gross Margin Expansion A Feature

GM expansion by 440bps was impressive.

Though previously flagged to the market, we were surprised by the magnitude of the GM expansion by 440bps to 84.5%. The Company benefited from scale efficiencies, and lower production costs of the new EM3 system, which was launched in the 4Q CY08. Margins were also positively impacted by increased support services to clinical trials. FX sensitivities on COGS remains negligible, with manufacturing based in Australia with key components (ex-tonometer) sourced locally.

Table 3: Margin Analysis

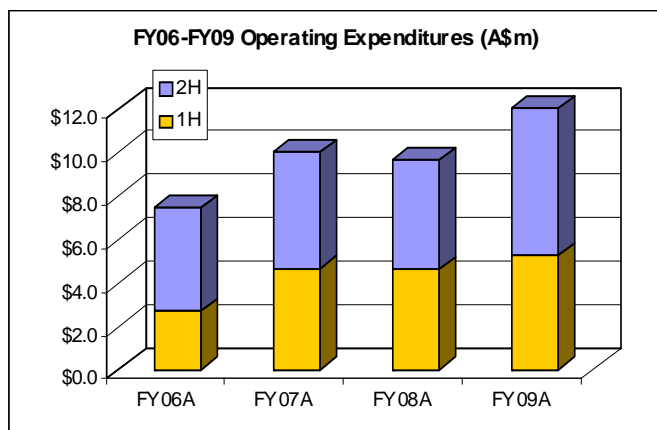
	FY08	FY09	Change
Product Sales	6.5	11.2	73.8%
COGS	(1.3)	(1.7)	35.3%
<i>Gross Margin</i>	<i>80.1%</i>	<i>84.5%</i>	<i>+440bps</i>
EBITDA	(4.0)	(1.8)	-56.2%
<i>EBITDA Margin</i>	<i>-54.3%</i>	<i>-14.1%</i>	
EBIT	(4.1)	(1.9)	-53.5%
<i>EBIT Margin</i>	<i>-56.3%</i>	<i>-15.5%</i>	
Reported NPAT	(3.8)	(1.7)	-55.4%
<i>NPAT Margin</i>	<i>-58.8%</i>	<i>-15.1%</i>	

Source: AtCor; TC est.

Expense Analysis

Operating expenses up 27.1% on pcp, due to FX and staff bonus payments in 2H.

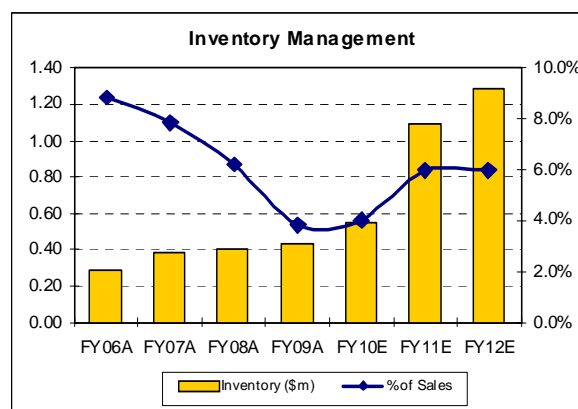
Total operating expenses were 27.1% ahead of pcp, which was related to staff bonuses in the 2H and FX effects, which accounted for \$1.5m of the \$3.0m overall increase (see across). Product and Regulatory Development via new clinical trials, and local US reimbursement initiatives remain key thematic for FY10. AtCor also continues to invest resources into developing central pressure payer relationships for ethnic minorities in the US, specifically African Americans. This follows from a landmark study in 4Q CY08 showing elevated central pressures in African American men versus Caucasian men in a College setting.



Source: AtCor reports; TC

Inventory/sales of 3.9%.

The Company continues to manage a low level of inventory, relative to sales of 3.9% (as shown across). The low level of inventory is a function of AtCor's current business model, reflecting large one-off orders from pharma companies, where units are made to order, coupled with the high gross margins in the business. We anticipate some level of inventory build in FY11 and FY12, commensurate with entry into clinical practice markets, and overall growth in the pharmaceutical clinical trials market. FY09 inventory was 104 days, down from 109 days in FY08.



Source: AtCor reports; TC est

Changes to Forecasts

Our changes to FY10, FY11 and FY12 estimates are shown below.

Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Product Sales (\$m)	13.6	13.6	0.1%	18.2	18.6	1.9%	21.4	21.7	1.3%
EBITDA (\$m)	(0.3)	(0.3)	-13.8%	3.5	3.8	8.2%	5.3	5.6	4.5%
EBIT (\$m)	(0.5)	(0.4)	-9.2%	3.3	3.6	8.5%	5.2	5.4	4.6%
NPAT (\$m)	(0.4)	(0.4)	-5.7%	3.4	3.7	8.0%	5.4	5.7	4.4%
EPS (c)	(0.4)	(0.4)	-5.7%	3.4	3.7	8.0%	5.4	5.7	4.4%

Source: TC Est

Outlook

Main driver for the business will continue to be pharma clinical trial contracts

The main revenue driver for AtCor in FY10 will continue to be the use of central pressure testing pharmaceutical clinical trial contracts. From a macro perspective, uptake is expected to remain strong through a combination of regulatory pressure on pharma companies to increase stringency around cardiac safety, coupled with a competitive advantage in determining beneficial central pressure effects of in-development cardiovascular drugs. We are forecasting pharma sales and associated services will constitute 62% of FY10 product revenues, reducing to 54.6% in FY11 and 49.6% in FY12, as clinician sales gain traction via state and national reimbursement coverage, particularly in the US.

US national reimbursement strategy remains hazy.

We understand the Company has made inroads into securing payer coverage for SphygmoCor[®], on a state basis in the US. However, the Company continues to play its cards "close to its chest" regarding national reimbursement (CPT 1 code) filing guidance. Given the next CPT panel meeting is scheduled for November, we are line ball on a CPT 1 filing during FY10.

State based reimbursement initiatives will be a key FY10 focus.

The mantra remains incremental state-based coverage, coupled with further major outcome studies (AtCor sponsored and independent), that will help build the dossier for a CPT 1 code. In our view, AtCor need only rely on professional society support for its filing with further clinician penetration/use using miscellaneous CPT codes. We believe the clinical evidence is not in dispute – SphygmoCor[®] central pressure and arterial stiffness measures are an independent predictor of cardiovascular risk/events.

AtCor has forecast strong sales growth in FY10, which we equate to 21.4% growth in product sales on pcp. We are forecasting an FY10 NPAT loss of \$0.4m, 76.1% on pcp. AtCor has also flagged increased product development expenditure relating to three progressive product launches in FY11. AtCor currently trades on a forward FY10 EV/sales multiple of 0.9x, which given the four year sales CAGR of 35.4% seems understated.

Maintain Speculative Buy and \$0.30 price target.

Given the \$1.1m full recourse director loan (principal + accrued interest) outstanding, which is expected to be repaid in 1H10, we anticipate positive FCF of \$0.3m in FY10 to result. We have made no changes to our FY11 and FY12 estimates at this juncture. With further double digit revenue growth anticipated for FY10, coupled with attractive reimbursement prospects, we maintain our Speculative Buy recommendation and \$0.30 price target.

ACG - Summary of Forecasts

ACG \$ 0.16

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Product Sales	6,451	11,209	13,612	18,560	21,727
growth (%)	32.8%	73.8%	21.4%	38.0%	32.0%
Total Revenue	7,363	12,400	14,235	18,659	21,983
Cost of Goods Sold	(1,286)	(1,740)	(2,110)	(2,877)	(3,368)
Gross Margin	80.1%	84.5%	84.5%	84.5%	84.5%
Total Operating Expenses	(10,942)	(13,908)	(14,503)	(14,780)	(16,143)
Net Operating Revenue	(3,579)	(1,508)	(268)	3,879	5,840
Direct R&D Expenses	0	0	0	0	0
EBITDA	(3,997)	(1,750)	(291)	3,780	5,584
Dep'n/Other Amort'n	(148)	(176)	(135)	(162)	(169)
EBIT	(4,145)	(1,926)	(427)	3,617	5,416
Net Interest	418	242	23	99	256
Pre-Tax Profit	(3,727)	(1,684)	(403)	3,716	5,672
Tax Expense	(66)	(7)	0	0	0
Minorities	0	0	0	0	0
NPAT Normalised*	(3,635)	(1,946)	(403)	3,716	5,672
NPAT	(3,793)	(1,691)	(403)	3,716	5,672
growth (pcp)	26.8%	55.4%	76.1%	n/a	52.6%
Net Abnormals	0	0	0	0	0
Reported Profit	(3,793)	(1,691)	(403)	3,716	5,672

PER SHARE DATA					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Reported EPS (c)	(3.8)	(1.7)	(0.4)	3.7	5.7
growth (pcp)	-26.8%	55.4%	76.1%	n/a	52.6%
EPS Pre-Net R&D (c)	(4.3)	(2.3)	(1.0)	3.7	5.7
growth (pcp)	-20.5%	45.3%	57.2%	n/a	52.6%
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	0.4	2.2	6.3
NPA per share (c)	5.7	4.5	4.1	7.9	13.6

KEY RATIOS					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBITD/Sales Margin %	-54.3%	-14.1%	-2.0%	20.3%	25.4%
EBIT/Sales Margin %	-56.3%	-15.5%	-3.0%	19.4%	24.6%
Current ratio (x)	2.9	2.3	2.5	3.2	4.1
Net Debt : Equity (%)	-55.6%	-73.5%	-87.3%	-72.8%	-84.2%
ROE (%)	-49.4%	-31.9%	-9.1%	60.9%	52.5%
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	4.3	2.8
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	2.0	1.1	0.9	0.6	0.2
EV/EBITDA (x)	n/a	n/a	n/a	2.7	0.8
EV/EBIT (x)	n/a	n/a	n/a	2.8	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	3,702	5,791	11,471
Receivables	1,877	3,382	1,770	3,712	4,345
Pre Payments	0	0	0	0	0
Inventories	401	434	544	1,114	1,304
Investments	0	0	0	0	0
Other	100	139	139	139	139
Total Current Assets	5,694	7,371	6,155	10,755	17,259
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
Total Non-Current Assets	2,256	529	592	608	570
TOTAL ASSETS	7,950	7,900	6,747	11,363	17,829
Accounts Payable	1,953	3,223	2,450	3,341	4,128
Borrowings	0	0	0	0	0
Provisions	19	4	27	37	43
Other	0	0	0	0	0
Total Current Liab	1,972	3,227	2,477	3,378	4,172
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	2,505	3,406	4,200
TOTAL EQUITY	5,961	4,645	4,241	7,958	13,630

* Assumes director/ex-director loans repaid in FY10

CASH FLOW SUMMARY					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(4,145)	(1,926)	(427)	3,617	5,416
Add: Depreciation	102	131	102	133	151
Amortisation	46	45	33	29	18
Change in Pay.	(32)	1,270	(773)	891	787
Less: Tax paid	(66)	0	0	0	0
Net Interest	418	242	23	99	256
Change in Rec.	(287)	179	1,612	(1,942)	(636)
Change in Inv.	(18)	(33)	(110)	(569)	(190)
Other	504	163	(15)	(9)	466
Gross Cashflows	(3,478)	71	446	2,249	6,268
Capex	(168)	(132)	(160)	(160)	(200)
Free Cashflows	(3,646)	(61)	286	2,089	6,068
Dividends Paid	0	0	0	0	0
Exchange Rate Adjustments	(37)	161	0	0	0
Net Cash Flow	(3,683)	100	286	2,089	6,068

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