



14 January 2015

AtCor Medical Holdings Limited (ACG)

Speculative Buy

Pharma slows, but long term thesis remains in tact – Spec Buy, \$0.28/sh PT

\$0.19

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Summary

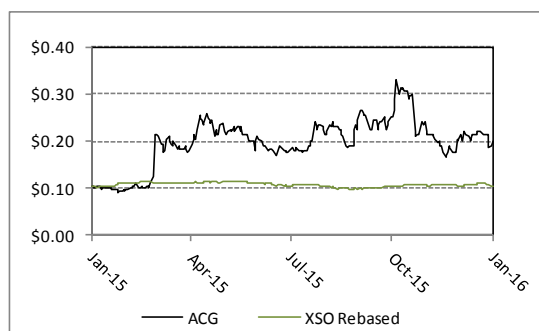
Market capitalisation (M)	\$37.8
Share price	\$0.19
52 week low	\$0.09
52 week high	\$0.35
Ave Monthly Vol (12M)	8.6
Cash as at 31/12/15 (M) Est.	\$3.9
NTA per share	\$0.02

Key Financials (A\$'000)

Year End	2015	2016	2017
	Actual	Est.	Est.
Product Sales	5.47	5.54	9.31
Total Revenue	6.46	5.58	9.33
COGS	(0.91)	(0.89)	(1.49)
Net Op. Rev	(1.81)	(5.12)	(2.74)
EBITDA	(1.81)	(5.15)	(2.76)
EBIT	(1.90)	(5.23)	(2.83)
Reported Profit	(1.44)	(4.69)	(2.31)
Adjusted NPAT*	(2.89)	(5.19)	(2.81)
Reported EPS (c)	0.0	(2.4)	(1.7)
PE Ratio (x)	n/a	n/a	n/a

*NPAT (ex-FX, R&D Tax Rebate)

Share Price Graph (A\$)



ACG's recent guidance points to a weaker than expected 1H result, however our overarching, positive medium-to-long term view on clinical sales (and ACG generally) post the commencement of Medicare reimbursement in early CY16 remains unchanged. The softer guidance came largely as a result of delays in finalising a pharmaceutical contract that was expected to be closed in the Q2, and confirmed our suspicions that pharma will continue to be a challenging space for the company. Accordingly, we reduce our pharma revenue estimates over FY16-FY18 and await further news flow on pharma contracts before revisiting these. Our clinical and research sales forecasts are unchanged, and we now forecast flat sales revenue of \$5.5m in FY16 (prev. \$8.1m) and \$9.3m in FY17 (prev. \$12.2m), implying growth of 67%. We remain confident that the commencement of Medicare reimbursement across the US in 1HCY16 will lead to increased adoption in the clinical sales market and drive accelerated revenue growth for ACG from 1H17 onwards. As such, we retain our Speculative Buy recommendation.

Soft 1H, expect stronger 2H - while the revised guidance was mainly the result of a delayed pharma contract, ACG also pointed to lower sales in key markets (which came as a bit of a surprise), although this was offset to some extent by stronger than expected growth in the APAC region. We expect that the pharma contract in question (est. US\$500k) will materialise this month and, coupled with an anticipated uplift in US clinical sales, will drive a stronger 2H result.

Clinical sales remains the key focus – ACG is currently expanding its US sales force to capitalise on a ~\$600m revenue opportunity in the US clinical market, and we understand that the hiring process is progressing well with key appointments imminent. Based on conservative market penetration assumptions in highly concentrated regions across the US (see earlier note), we see clinical sales revenue increasing to \$1.5m in FY16 (+35%), \$4.7m in FY17 (+127%), and \$8.1m in FY18 (+138%) – all of which remain unchanged following the recent update.

Revised forecasts – our reduced pharma estimates see our near term revenue numbers fall and see ACG becoming profitable in FY18 (rather than FY17 previously). We now forecast a loss of \$4.7m in FY16, improving to a loss of \$2.3m in FY17 and a profit of \$630k in FY18. We note we have taken a particularly conservative stance on pharma sales going forward, and see upside risk to our numbers from both pharma and a faster than anticipated ramp-up in clinical sales post reimbursement.

Valuation – ACG trades on a EV/Sales multiple of 6.1x in FY16 and 4.2x in FY17, which represents a premium of c17% premium to listed biotech peers (5.2x) and c84% discount to IPD (36.9x). Given 1) the commencement of Medicare reimbursement early in CY16; 2) the attractive payback metrics for ACG's device; 3) the significant addressable market (c\$600m) for ACG's device and 4) the company's robust medium term growth profile from 1H17 onwards; we believe a 10x EV/Sales multiple is defensible. Applying this to revised FY16 revenues implies a \$0.28/sh price and 48% uplift from current trading levels, which underpins our positive investment thesis.

ACG - Summary of Forecasts	ACG	\$ 0.195
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PROFIT & LOSS SUMMARY (A\$000s)				
Period	FY14A	FY15A	FY16E	FY17E
Product Sales	5,053	5,467	5,543	9,308
Total Revenue	5,293	6,464	5,578	9,327
Cost of Goods Sold	(943)	(907)	(887)	(1,489)
Gross Margin	81.3%	83.4%	84.0%	84.0%
Total Opex	(7,114)	(7,370)	(9,809)	(10,579)
EBITDA	(2,772)	(1,815)	(5,152)	(2,759)
Dep'n/Other Amort'n	(99)	(88)	(75)	(69)
EBIT	(2,870)	(1,903)	(5,226)	(2,828)
Net Interest	8	1	34	17
Pre- Tax Profit	(2,862)	(1,901)	(5,192)	(2,811)
Tax Expense	0	0	0	0
Minorities	0	0	0	0
NPAT Adjusted*	(2,862)	(2,889)	(5,192)	(2,811)
Net Abnormals	411	461	500	500
Reported Profit	(2,451)	(1,440)	(4,692)	(2,311)
Margins on Sales Revenue				
EBITDA	n/a	n/a	n/a	n/a
EBIT	n/a	n/a	n/a	n/a
NPAT Adj.	n/a	n/a	n/a	n/a
Change on pcp				
Sales Revenue	-44.2%	8.2%	1.4%	67.9%
EBITDA	-225.2%	34.5%	-183.9%	46.4%
EBIT	-241.0%	33.7%	-174.6%	45.9%
NPAT Adj.	-240.5%	0.9%	-79.7%	45.9%

PER SHARE DATA				
Period	FY 14 A	FY 15 A	FY 16 E	FY 17 E
Reported EPS (c)	(1.6)	(0.9)	(2.4)	(1.2)
Growth (pcp)	-185.7%	-43.6%	168.8%	na
EPS Adjusted (c)	(1.8)	(1.8)	(2.6)	(1.4)
Growth (pcp)	-279.1%	-3.1%	48.3%	-45.9%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	(1.0)	(0.7)	(2.3)	(1.4)
NTA per share (c)	2.1	2.6	1.3	1.2

KEY RATIOS				
Period	FY 14 A	FY 15 A	FY 16 E	FY 17 E
Net Debt / EBITDA (x)	n/a	n/a	n/a	n/a
Net Debt : Equity (%)	n/a	n/a	n/a	n/a
EBIT Interest Cover	n/a	n/a	n/a	n/a
Free CF / NPAT (5yr ave)	n/a	n/a	n/a	n/a
Current ratio (x)	3.3	3.6	2.6	1.9
ROE (%)	n/a	n/a	n/a	n/a
ROIC (%)	n/a	n/a	n/a	n/a
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES				
Period	FY 14 A	FY 15 A	FY 16 E	FY 17 E
PER (x)	n/a	n/a	n/a	n/a
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	7.2	6.5	6.7	4.1
EV/EBITDA (x)	n/a	n/a	n/a	n/a
EV/EBIT (x)	n/a	n/a	n/a	n/a

BALANCE SHEET SUMMARY				
Period	FY14A	FY15A	FY16E	FY17E
Cash	2,168	3,450	1,740	1,022
Receivables	1,548	1,549	1,663	2,792
Inventories	538	539	554	931
Other	98	164	164	164
Total Current Assets	4,352	5,702	4,121	4,909
Receivables	0	0	0	0
Investments	0	0	0	0
Property Plant & Equip	280	251	216	213
Intangibles	0	0	0	0
Other	0	0	0	0
Total Non- Current Assets	280	251	216	213
TOTAL ASSETS	4,631	5,954	4,338	5,122
Accounts Payable	1,216	1,454	1,552	2,606
Borrowings	0	0	0	0
Provisions	111	129	40	25
Other	0	0	0	0
Total Current Liab	1,326	1,583	1,592	2,631
Borrowings	0	0	0	0
Provisions	21	36	80	90
Other	0	0	0	0
Total Non- Current Liab	21	36	80	90
TOTAL LIABILITIES	1,347	1,620	1,672	2,721
TOTAL EQUITY	3,284	4,334	2,666	2,401

CASH FLOW SUMMARY				
Period	FY 14 A	FY 15 A	FY 16 E	FY 17 E
EBIT (excl Abs/Extr)	(2,870)	(1,903)	(5,226)	(2,828)
Add: Depreciation	99	88	75	69
Amortisation	0	0	0	0
Change in Pay.	(179)	239	98	1,054
Less: Tax paid	400	500	500	500
Net Interest	8	1	34	17
Change in Rec.	1,118	(4)	(121)	(1,141)
Change in Inv.	(212)	(2)	(15)	(377)
Other non-cash / sig items	0	0	0	0
Gross Cashflows	(1,636)	(1,081)	(4,655)	(2,704)
Capex	(44)	(47)	(60)	(60)
Acns / (divestments)	0	0	0	0
Free Cashflows	(1,681)	(1,128)	(4,715)	(2,764)
Dividends Paid	0	0	0	0
Debt issued / (repaid)	0	0	0	0
Equity issued / (buyback)	700	2,800	3,000	2,000
Other	82	85	6	46
Net Cash Flow	(899)	1,757	(1,710)	(718)
Effect of FX on Cash	0	0	0	0

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