

ITL Limited

Interview with Bill Mobbs (CEO)

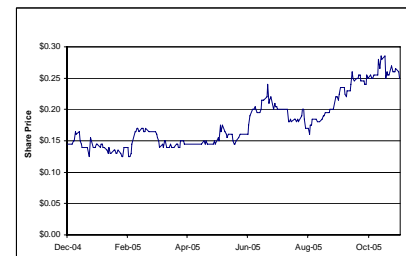
28 November 2005

ASX: ITD

Price: \$0.26

Key Points & Analysis

- ❑ After a disappointing first half last year (EBITDA of only \$0.55M in the 6 months to December 2004) ITL went on to report a \$2.2M EBITDA for the second half and it has subsequently announced a 26% increase in revenues for the first quarter of this year (to September 2005).
- ❑ The second quarter may be less profitable due to a temporary slowdown in shipments to the American Red Cross but the outlook is for a much improved first half and a record EBITDA for the second half to June 2006.
- ❑ ITL has recently renewed its multi-year contract with key blood banking customers, American Red Cross (\$9.5M over 2 years) and Baxter Healthcare (est'd \$8M over 5 years) and won long term contracts with Terumo Corporation, Haemonetics Corporation and, especially importantly, America's Blood Centres.
- ❑ Meanwhile, the procedure kits business has enjoyed a surge in revenues as Australian hospitals continue to convert to customized non re-usable packs for operating room usage. It is estimated that the domestic industry is about 7% converted, compared with about 90% in the US. The key drivers for adoption by hospital operators and medical practitioners are cross infection and inventory management improvements. Each 10% of conversion is worth about \$60M in annual revenues.
- ❑ ITL is the second largest player in the Operating Room kits segment in Australia and is a market leader in segments such as invasive blood pressure monitoring kits and catheterisation laboratory kits.



Capital Details

Share price	\$0.26
Issued shares M	99.6
In-money options	0
Diluted capitalisation \$M	25.4
Net cash \$M	3.5
Enterprise valuation	21.9

Key Activities

The company's Innovative Products Division (IPD) develops safety devices to address infection control issues especially in the blood collection industry. The Procedure Kits Division (PKD) provides customised procedure packs for various medical applications.

Key Investment Arithmetic				
Year to June:	2004A*	2005A	2006F	2007F
Gross revenue	21.7	24.2	27.8	31.3
EBITDA	3.1	2.8	4.0	5.0
EBITDA margin	14.3%	11.4%	14.4%	16.0%
Reported Net Profit	-0.8	0.1	2.5	3.3
EPS \$	-0.008	0.001	0.025	0.033
PER	na	na	10.1	7.8
EV/EBITDA	7.1	8.0	5.5	4.4
Dividend	0.000	0.000	0.000	0.010
Yield	0.0%	0.0%	0.0%	3.9%
Franking factor	na	na	na	na
Debt equity ratio	-24%	-14%	-16%	-19%

* pro forma for 12 months of Surgicare

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- ❑ ITL has a significant portfolio of patents, trademarks and registered designs. This year's R&D budget is in the order of \$1.5M. The next IPD products due for release are a sub culture drip (which like the SSK takes the company further into the laboratory segment) and irreversible clamps.
 - ❑ Other new product releases over the next 12 months will include Sample First, a device that uses sample diversion technology for blood sampling prior to collection and the first two products under the TINA programme (Transfusion Infusion Needle Assembly), which is developing next generation concepts for sharps protection devices.
 - ❑ The Procedure Kits Division is beginning to grow margins due to strategic relocation of certain key components to its own manufacturing facility in Ipoh, Malaysia. The advantages of manufacturing componentry such as moulded dishes and bowls are that it lowers cost and adds a point of differentiation to the ITL product.
 - ❑ The recent joint venture with Heal Marketing offers ITL first mover advantage in the Malaysian procedure kit market. Heal's existing client network (its core business is distributing other types of hospital equipment) and ITL's domestic infrastructure could lead to a highly successful roll out. The joint venture is likely to be a base for a medium term penetration of kit markets in Singapore, Thailand and Indonesia.
 - ❑ A second shift has been maintained at PKD's factory and warehouse facilities in Breaside, Melbourne. ITL is now supplying in excess of 200 hospital. The company's strategy is to pursue a higher level of conversion across the existing customer base. The company has slowed its release programme for lower margin non OR kits as a result.
 - ❑ Ipoh plant is now running at a utilisation rate of more than 70% due to a combination of rising internal demand and the gradual influx of Original Equipment Manufacturing (OEM) contracts. The company perceives significant long term OEM potential.

Conclusions

Having eradicated its operating losses, ITL is now capable of generating continuous gains in revenue and margin. This is likely to result in a significant bottom line profit this year.

The recent contractual wins with major customers such as Baxter Healthcare, American Red Cross, Terumo Corp and American Blood Centres, the release of new IPD products and the PKD joint venture with Heal Marketing should each serve to underpin medium term earnings momentum.

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