



## Company Snapshot

# ITL Limited (ASX:ITD)

23<sup>rd</sup> August 2007

### **About Austock Company Snapshot**

*This report is not intended to constitute full Austock research coverage. It is an initial snapshot of the Company in question, usually after meeting management, and may in time lead to full coverage. Financial forecasts are based on either company guidance or consensus estimates. The snapshot is intended to assist the reader to form their own view on the investment merits of the stock.*

**Analyst:**  
Heath Andrews  
handrews@austock.com.au  
Ph: (03) 8601 2644

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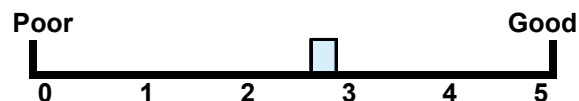
## Key Data

ASX Code	ITD	Share price	\$0.27
Head Office	Canberra	Ord. Shares on Issue (m)	123
MD / CEO	Mr Bill Mobbs	Options on Issue (m)	0
CFO	Mr Greg Lewis	Market Cap. (\$m)	33
Director Holdings	20.3%	Net cash at 30-Jun-07 (\$m)	2.5
Monthly turnover (\$m)	2.3	Well held institutionally	No
Visited by Analyst	Yes	No. Consensus Brokers	2
Web Address	<a href="http://www.itl-limited.com">www.itl-limited.com</a>		

Consensus Forecasts (Jun y/e)	06A	07A	08F	09F
Sales (\$m)	31.3	35.3	39.8	45.8
EBITDA	4.6	3.2	5.8	7.3
NPAT (\$m)	3.3	1.7	3.9	4.5
EPS (cps)	3.1	1.6	3.2	3.7
PE (x)	8.7	16.9	8.5	7.4
Div. Yield (%)	3.7%	3.7%	6.5%	10.2%

Date: 23rd August 2007

## Company Screen



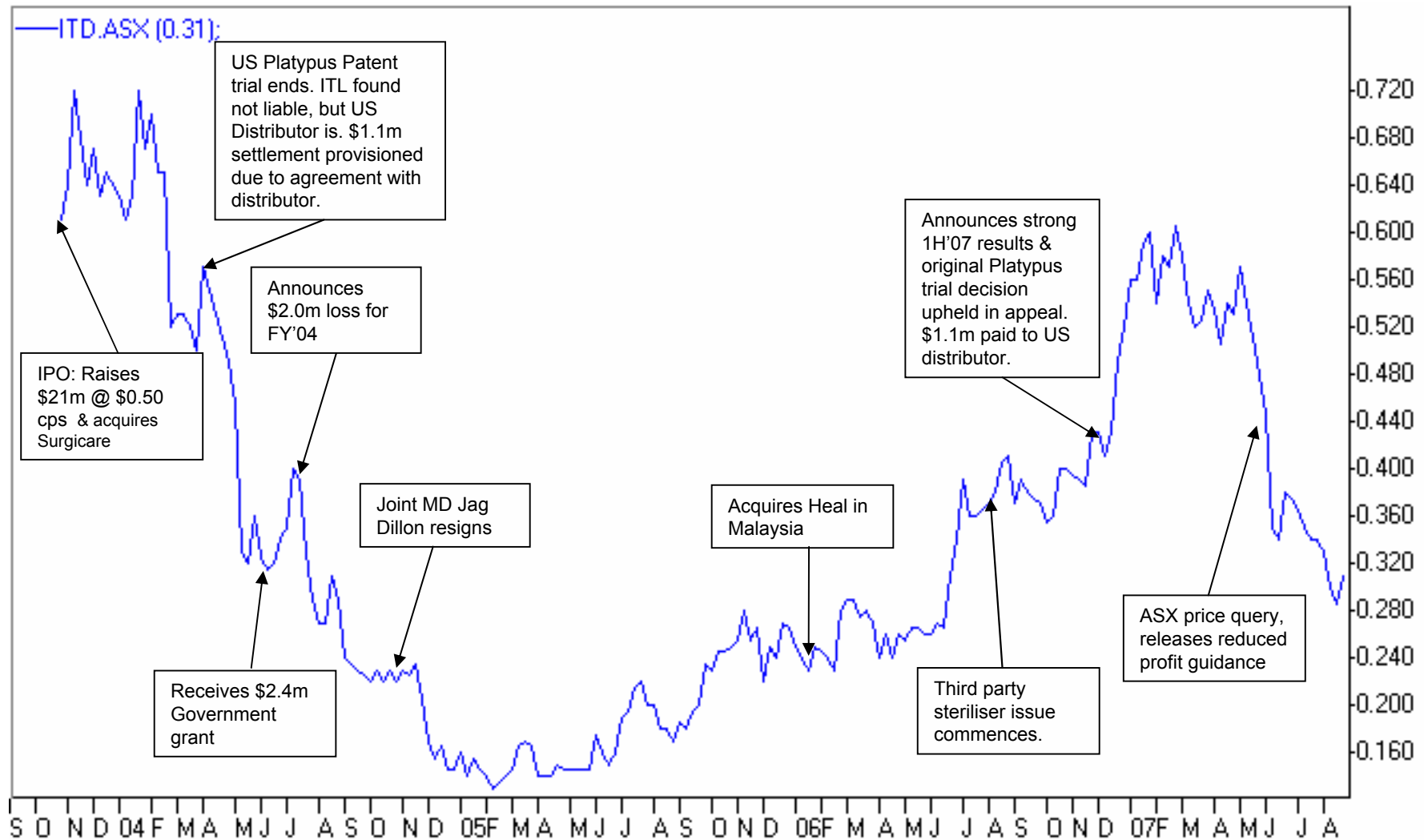
## Business Metrics Rating \*

Attractiveness of Sector	6 / 10
Competitive position	7 / 10
Earnings track record	4 / 10
Earnings growth outlook	7 / 10
Liquidity of stock	4 / 10
<b>Rating</b>	<b>28 / 50</b>

\* Each business metric is allocated a score by comparison to peers operating in the same industry sector or via a set rating scale.

## Key Points

- ITD Operates three divisions:
  - Hospital Services Division Australia (collates surgical packs)
  - Hospital Services Division Malaysia (3<sup>rd</sup> party equipment & supplies)
  - Innovate Products Divisions, (products used in the safe collection of blood) .
- The 2H'07 returned -\$0.1m compared to 1H'07 contribution of \$1.9m.**
- FY'07 NPAT of \$1.7m was below recent guidance of \$1.9m - \$2.2m and well below earlier consensus estimates of \$4.0m.**
- \$8.3m capital raising completed in Apr'07 (16m shares @ \$0.52 per share). Proceeds used to fund Malaysian manufacturing upgrades and additional acquisitions within Asia (still pending).
- Issues impacting profits for FY'07 were:
  - Third party steriliser cut sterilisation services to ITL. Product flown to Asia for sterilisation and back. ITL was unable to supply customer requirements – lost business and most of its sales force.
  - Capacity problems at its Malaysian manufacturing facility curtailing sales in the Innovative Products Division. New factory development is delayed .
  - HSD Malaysia has strong 1H, but poor 2H.
- Factors to address problems are:
  - Installation of own steriliser, set to for production in October.
  - Return to normal service levels from third party steriliser.
  - Long term, installation of new factory in Malaysia.
- Based on short term difficulties and reduced profits, the share price of ITL has fallen cut by ~ 50% since May '07.
- Whilst the worst appears behind it, ITL still has challenges in FY'08. Its 1H'08 results will give an indication of whether it is on track to meet consensus estimates and how well it has resolved issues.**



## Business Overview

- The business employees 430 staff.
- The Apr'07 capital raising was for expansion in S.E. Asia. No acquisition announcements are expected until late this year or early next year.

ITL operates three business segments:

### 1. Innovative Products Division – IPD (~25% of revenue)

- Designs, manufactures and markets medical devices, particularly for the safe blood collection and medical consumables markets.
- Design department is located in Sydney. Manufacture of Product for this division is done in Malaysia. The plant is certified to ISO13485 – meets requirements to supply product to US, Asian and European markets.
- ITL's products are used in over 95% of whole blood collections in the USA, UK and Australia.
- Customers of IPD product include:
  - The American Red Cross. This contract is set for renewal at the end of FY'07.
  - bioMerierux.
  - Hema Quebec.
- Division created 25% of 1H'07 revenue, but contributed 58% of EBIT.
- R&D runs at approximately 9% of company revenue.
- Division is developing several new patented products
- Sales appear to be imminent for several of these products, with trials going ahead in junction with a potential large customer (Fresenius).
- IPD products are found in 35 countries.
- The group has over 20 families of patents, including over 120 patents worldwide.

### 2. Hospital Services Division - Malaysia (~25% of revenue)

- Operates in Malaysia as a distributor of 3<sup>rd</sup> party medical equipment and supplies, principally to hospitals.
- Division comprises of the Heal acquisition (recently renamed to ITL Healthcare SEA).
- Operates on low margin ~7% of EBIT.
- Sells to over 165 hospitals / agents in Malaysia.

### 3. Hospital Services Division – HSD (~50% of revenue)

- Division formed from Surgicare acquisition in Oct'03.
- Collates and packages either standard or customised medical packs for: operating theatre procedures, cath labs or invasive blood pressure monitoring.
- Standard packs are for common surgical procedures (i.e. Caesarean Section Pack).
- Custom packs contain the items requested by the surgeon.
- Packs are collated at ITL's new facility in Melbourne. The new facility has ~ three times the potential output of the original Surgicare acquired facility.
- Operates in a high volume low margin environment - ~ 7% margin.
- Packs are sold to over 200 hospitals in Australia.
- Majority of business is gained by competitive tendering and relationship building with the hospital supply department executives.
- Use of surgical packs and disposable gowns are seen as more hygienic than individually sterilised reusable medical instruments and garments – expected to provide continued growth In Australia.
- Completion of the steriliser plant will reduce the reliance on third parties, reduce order processing turnaround time and potentially give ITL a cost advantage.

## History

1994	Business commenced as a two man operation from above founders garage in Canberra (Messrs Mobbs & Dillon).
Oct '03	After nine years of operations, ITL lists on the ASX. Shares issued at \$0.50 and \$21m raised. Acquisition of Surgicare completed (medical procedure kits collation and warehousing operation in Melbourne).
Apr '04	The US Platypus® litigation trial found that patent breach claims against ITL were invalid, however breach upheld against US distributor. Incurs \$1.5m in legal expenses and provisions \$1.1m to assist US distributor – case appealed.
Jun '04	Receives government grant of \$2.4m to assist development of the “Transfusion Infusion Needle Assembly” (TINA) project.
Oct '04	Co-founder Dr Jag Dillon resigns as joint MD. Receives a \$0.85m payout. Mr William Mobbs assumes CEO position.
Oct '05	Extended relationship with American Red Cross. Contracted to end of 2007. Expected revenue generated - \$9.5m.
Jan '06	Acquires Malaysian company Heal Marketing for \$2.4m. Heal markets medical equipment, instruments and consumable products in Malaysia.
May '06	Heal signs \$6.0m contract to supply medical equipment to the Prince Court Medical Centre in Malaysia.
Oct '06	Announces maiden dividend of 1cps fully franked. New manufacturing facility established at Chelsea Heights in Melbourne to triple production of its surgical packs.

Dec '06	The US Platypus® litigation appeal ends, with original decision upheld. ITL pay \$1.1m to US distributor.
Feb '07	Announced that global healthcare company Fresenius HemoCare is to trial two new products developed under project TINA.
Mar '07	Commonwealth Government provides additional \$0.7m in funding to assist in the R&D of the TINA project. Target date for its new 35 m <sup>3</sup> Ethylene Oxide (ETO) steriliser plant to become operational in Melbourne passes. Oct'07 a more likely start date for the steriliser.
Apr '07	\$8.3m capital raising completed (16m shares @ \$0.52 per share). Proceeds used to fund Malaysian manufacturing upgrades and additional acquisitions within Asia (still pending).
Jun '07	Released downgraded guidance for the FY'07 year. Revenue of \$34m – 35m. NPAT of \$1.9m - \$2.2m. Stated that performance of the company in the second half had been flat, largely due to sterilisation services cutback and increased costs (had to sent product to Malaysia and back to get sterilised).
Aug '07	Surgical pack competitor Unomedical has its sterilisation plant shut down by Pittwater Council in Sydney due to concerns of Ethylene Oxide emissions. New emission system (Catalytic Converter) is in the process of being installed.

## Competitors

- Competition in Australia for standard and custom surgical packs has increased in recent years. Whereas 4-5 years ago, the main competitor was Cardinal Health.
- Other major competitors in Australia include:
  - Multigate
  - Unomedical (facing sterilisation issue crisis)
  - Defries Industries (Melbourne based)
- International competitors for Hospital Services – Malaysia are:
  - Siemens
  - GE
- Company indicated that its IPD has no direct competitors.

## Industry Drivers

- A WHO study found that 8.7% of patients worldwide acquire infections in hospitals, most frequently from surgical wounds. Trend will be to follow practices that reduce the chance of infection.
- Aging populations in developed countries is behind the general health care industry growth.
- Tighter regulations and higher expectations of product quality by healthcare providers is likely to lead to consolidation of medical product providers – with only the best operators remaining long term.

## Competitive Advantages

- ITL Melbourne operations recently gained ISO13485:2003 certification. This qualification, as well as submitting product registrations, is a new requirement for the industry from October onwards. It is possible that not all competitors will meet this deadline.
- Melbourne HSD facilities are first class and provide a competitive edge.
- ITL is in the process of installing its own large capacity steriliser plant, this should be operational early in the 2<sup>nd</sup> quarter of FY'08.

- Manufacturing and marketing operations in Malaysia gives ITL access to further expand into the S.E. Asian market.
- In the US and Europe, use of disposable gowns in operating theatres is the norm. Current Australian usage rate is estimated to be 30% – 35%.
- In the US, it is estimated that 60% - 80% of operations use disposable packs, whereas in Australia the rate is about 7%..
- ITL's large R&D spend (9% of revenue), has enabled it to stay at the forefront with its IPD products .
- Operation of its own sterilising plant removes a risk from the business and potentially provides an opportunity – currently, sterilisation and irradiation services is a monopoly industry in Australia.
- Long term established player in IPD – with good reputation, established sales network and new products to add to the range.
- Negative press surrounding the Unomedical steriliser emitting Ethylene Oxide in Sydney is likely to impact on this competitor.

## Business Risks

- Company has replaced most of its HSD sales reps after they resigned during 2H'07 due to the supply issues. It may take ITL longer than planned to regain its reputation and trust of customers.
- Contract with American Red Cross is due for renewal at the end of 2007.
- Manufacturing facility in Malaysia is operating 24/7. Plans for building a new factory have been delayed. This could constrain sales in the next 1-2 years.
- 3<sup>rd</sup> party steriliser issue reappears before the new plant is operating.
- ITL is currently in the process of appointing a new divisional manager for HSD - Australia. This could be delayed or they could appoint an inappropriate person.

<p><b>Mr William Mobbs</b>          Managing Director          Elected: 1999          Company holding: 18.9%</p>	<ul style="list-style-type: none"> <li>• Qualifications: MBA, BSc , Member Aust. Institute Company Directors</li> <li>• Co-founder of ITL</li> <li>• Joint MD until Oct 2004, then sole MD</li> <li>• Previously had 10 years experience in the international medical and healthcare industries</li> <li>• Actively involved in product research</li> <li>• Current Directorships include:             <ul style="list-style-type: none"> <li>• Seeing Machines (listed on AIM)</li> </ul> </li> </ul>
<p><b>Mr Julian Gosse</b>          Chairman          Elected: 2003          Company holding: 0.4%</p>	<ul style="list-style-type: none"> <li>• Experienced in both banking and broking</li> <li>• Current Directorships include:             <ul style="list-style-type: none"> <li>• BlueChip Financial Solutions Limited (Chairman)</li> <li>• Clime Capital Limited</li> <li>• Wilson Leaders Limited</li> <li>• Wilson Investment Fund Limited</li> </ul> </li> </ul>
<p><b>Mr Richard England</b>          Non-Executive Director          Elected: 2003          Company holding: 0.5%</p>	<ul style="list-style-type: none"> <li>• Qualifications: FCA, Member Aust. Institute Company Directors</li> <li>• Professional Director and Insolvency Specialist.</li> <li>• Current Directorships include:             <ul style="list-style-type: none"> <li>• RuralCo Holdings Limited (Chairman)</li> <li>• KH Foods Ltd (Chairman)</li> <li>• Healthscope Limited</li> <li>• St George Bank Limited</li> <li>• Allianz Insurance Group</li> <li>• Choiseul Investments Limited</li> </ul> </li> </ul>
<p><b>Mr Roy Rose</b>          Non-Executive Director          Elected: 2005          Company holding: 0.5%</p>	<ul style="list-style-type: none"> <li>• Qualifications: BSc , Member Aust. Institute Company Directors</li> <li>• Chemist with 30 years experience (at Orica) specialising in: general, operational, production and technology management; international sales and marketing; and corporate governance</li> <li>• President of the Australian Research Group</li> <li>• Current Directorships include:             <ul style="list-style-type: none"> <li>• Cooperative Research Centre for Environmental Biotechnology</li> <li>• Qenos Pty Ltd</li> <li>• CSIRO Niche Manufacturing Committee (Chairman)</li> </ul> </li> </ul>

**ITL Limited**
**NFPOS**
**123 m**
**Price**
**\$ 0.27**
**Market Cap**
**\$33 m**
**Model Updated:**
**23-Aug-07**
**PROFIT & LOSS (\$m)**

Y/E Jun 30	2005A	2006A	2007A	2008F	2009F
<b>Sales</b>	24.2	31.3	35.3	39.8	45.8
<b>EBITDA</b>	0.5	4.6	3.2	5.8	7.3
Depn & Amort	-0.8	-0.7	-0.8	-1.4	-1.6
<b>EBIT</b>	-0.3	3.9	2.4	4.4	5.7
Net Interest	-0.1	-0.2	-0.3	0.5	-0.1
<b>Net Profit Before Tax</b>	-0.4	3.7	2.1	4.9	5.6
Income tax expense	0.3	-0.4	-0.4	-1.0	-1.1
<b>NPAT pre abs.</b>	0.0	3.3	1.7	3.9	4.5
Abnormals	0.0	0.0	0.0	0.0	0.0
<b>Adjusted NPAT</b>	0.0	3.3	1.7	3.9	4.5

**BALANCE SHEET (\$m)**

Y/E Jun 30	2005A	2006A	2007A
Cash	4.4	5.4	9.0
Debtors	4.1	7.3	6.7
Cap. Product Development	4.5	6.4	9.0
Intangibles	8.6	10.3	11.2
Other assets	8.8	12.2	17.2
<b>Total Assets</b>	30.3	41.5	53.0
Borrowings	0.9	3.1	6.5
Trade Creditors	4.6	6.7	4.6
Other Liabilities	-0.3	2.7	3.6
<b>Total Liabilities</b>	5.2	12.5	14.8
<b>NET ASSETS</b>	25.0	29.0	38.3
Contributed Capital	27.7	28.1	38.0
<b>Shareholder Equity</b>	25.0	29.0	38.3

**CASHFLOW STATEMENT (\$m)**

Y/E Jun 30	2005A	2006A	2007A
<b>Operating EBITDA</b>	0.5	4.6	3.2
Interest & Tax Paid	(0.1)	0.3	(0.4)
Working Cap.	0.1	0.2	(0.3)
<b>Operating CF</b>	0.5	5.1	2.5
Maintenance Capex	(2.1)	(3.1)	(9.5)
Expansion Capex	(0.3)	(2.7)	(0.8)
<b>Free Cashflow (FCF)</b>	(1.9)	(0.8)	(7.8)
Ord & Pref Dividends	0.0	0.0	(0.7)
Net Other	(0.5)	(0.0)	11.6
<b>Net Cashflow</b>	(2.3)	(0.8)	3.1

**KEY RATIOS**

Y/E Jun 30	2005A	2006A	2007A	2008F	2009F
EBITDA Margin (%)	2.0%	14.7%	9.1%	14.4%	16.0%
EBIT Margin (%)	-1.1%	12.4%	6.9%	11.0%	12.5%
NPAT Margin (%)	-0.1%	10.4%	4.9%	9.8%	9.8%
ROE (%) y/e	-0.1%	11.2%	4.6%		
ROA (%) y/e	-1.0%	10.7%	5.5%		
Eff Tax Rate (%)	91.5%	11.9%	18.7%	20.4%	19.6%
NTA per share (cps)	16.5	18.5	22.0		
Interest Cover (x)	0.0	21.3	8.2		
Net Gearing (%)	0.0%	0.0%	0.0%		

**VALUATION PARAMETERS**

Y/E Jun 30	2005A	2006A	2007A	2008F	2009F
EPS Adj (c)	0.0	3.1	1.6	3.2	3.7
<b>PE Adj (x)</b>	<b>0.0</b>	<b>8.7</b>	<b>16.9</b>	<b>8.5</b>	<b>7.4</b>
PER Rel - All Ind. Ex-Fin.	0.0	0.4	0.8	0.5	0.4
PER Rel - Small Indst.	0.0	0.4	0.8	0.5	0.5
Enterprise Value (\$m)	13.8	32.1	30.8	30.8	30.8
EV / EBITDA (x)	28.4	7.0	9.5	5.4	4.2
Price / NTA	1.6	1.5	1.2		
DPS (cps)	0.0	1.0	1.0	1.8	2.8
Dividend Yield (%)	0.0%	3.7%	3.7%	6.5%	10.2%
Franking (%)	0%	100%	100%	100%	100%

**GROWTH PROFILE (YoY)**

Y/E Jun 30	2005A	2006A	2007A	2008F	2009F
Sales (\$m)	37%	29%	13%	13%	15%
EBITDA (\$m)	155%	848%	-30%	78%	28%
EBIT (\$m)	86%	1541%	-37%	80%	31%
Adj. NPAT (\$m)	98%	10278%	-46%	124%	15%
EPS (cps)	98%	10054%	-49%	98%	15%
DPS (cps)	0%	0%	0%	75%	57%

**DIRECTORS**

	Shares (m)	Shares (m)
Mr William Mobbs	23.3	Mr Richard England 0.6
Mr Julian Gosse	0.5	Mr Roy Rose 0.6
		<b>Total 25.0</b>

**SUBSTANTIAL SHAREHOLDERS**

	Shares %	Shares %
William Mobbs	18.9%	Mandill Pty Ltd 11.5%
Thorney Investments P/L	7.7%	
		<b>Total 38.1%</b>

Source: FY'08 & FY'09 is Reuters Consensus Estimates  
 Historical figures are sourced from company annual reports.

## Financial Commentary

- Over 50% of revenues are generated offshore, in either \$USD or the Malaysian Ringgit. Management indicated that they do not have hedging in place.
- The \$USD has moved from 73 cents to 85 cents for translation purposes for the FY'07 accounts. The recent fall in the \$AUD relative to the \$USD is a positive if it continues.
- ITL has a strong balance sheet with net cash of \$2.5m, however, due to its high level of R&D, free cash flow has generally been negative in the past.
- Revenue in the 2H'07 is some 25% less than in the 1H (\$15.0m v. \$20.3m).
- FY'07 NPAT of \$1.7m was well below earlier consensus estimates of NPAT of \$4m (before the profit downgrade announcement).
- The 1H'07 was positively impacted by strong sales of capital equipment in HSD Malaysia. These sales were won by tender and related to a big project – cyclical in nature. The sales performance was not repeated in the 2H'07, but a similar level of sales are budgeted for FY'08..
- Management have indicated that it has recently won several tenders in the HSD - Australia and has employed new sales staff.
- ITL's sterilisation plant should provide longer term benefits, such as:
  - Reduced days turnaround from collating packs to ready to send (10 days to 3 days)
  - Allowing for carrying less finished goods, particularly at interstate warehouses (reduced working capital)
  - Ability to sterilise other medical suppliers products.
- The companies major profit contributor is the IPD division. This division has several new products that management expect will continue to drive growth in this area, albeit with possible supply issues until the new manufacturing facility is built (if ITL are to manufacture the new products).

## FY'07 Results

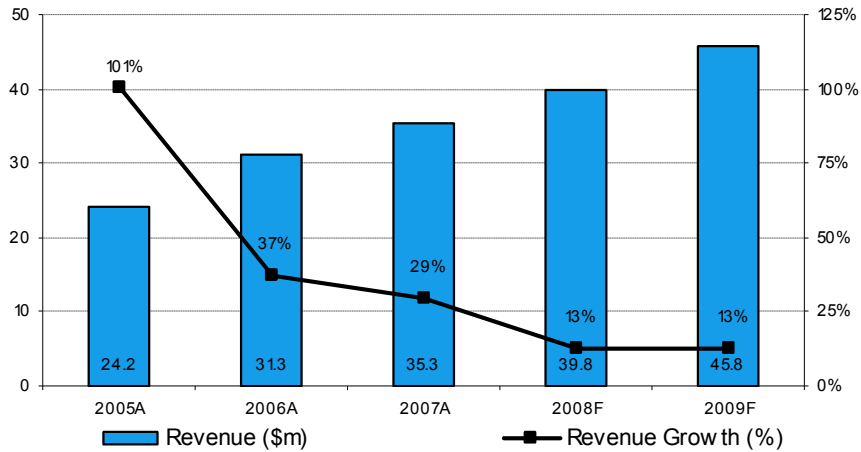
These show:

- Revenue growth of 13% to pcp (\$31.3m). HSD – Malaysia had a full 12 month contribution v. 6 months in the pcp. This would account for most of the growth.
- NPAT came in at \$1.7m. Management guidance was for a figure of between \$1.9m - \$2.2m. The result represents a fall of 46% over the pcp.
- Diluted EPS growth of -49%: 1.6cps to 3.1cps to pcp.
- Operating surplus CF of \$2.5m.
- As details of problems have become known, the market has reacted and the share price has fallen by ~ 50% in the past three months.
- The sterilisation issue had a large effect in 2H'07, the magnitude of the problem was originally underestimated by management.

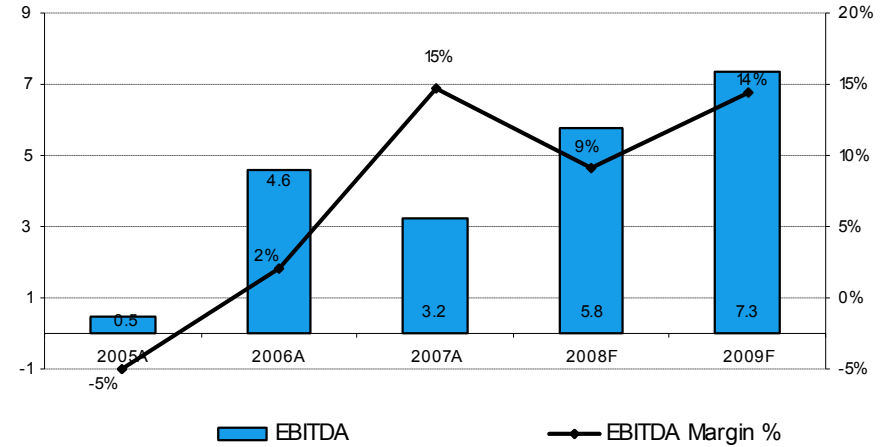
## Implied Valuation

- Austock snapshots do not attempt to model future financial performance and calculate DCF valuations. As such, this section concentrates more on PE and EV/EBITDA multiples.
- The business is trading at a PE 8.5x's FY'08 consensus estimates, the FY'08 Small Industrials average PE is 15x's.
- The business is trading at 5.4x's FY'08 consensus estimates EV/EBITDA vs. the Small Industrials average of 9x's.
- The company has an experienced MD who is passionate about the business, quality facilities in Australia, established IP and is positioned to restart its growth.
- According to management, the worst of its short term problems are behind it. The business appears to have sound long term business strategies, it is more a question of how long it will take to recapture the lost ground.
- **ITL's 1H'08 result will be a good guide as to how well the business has recovered from some of its short term issues.**

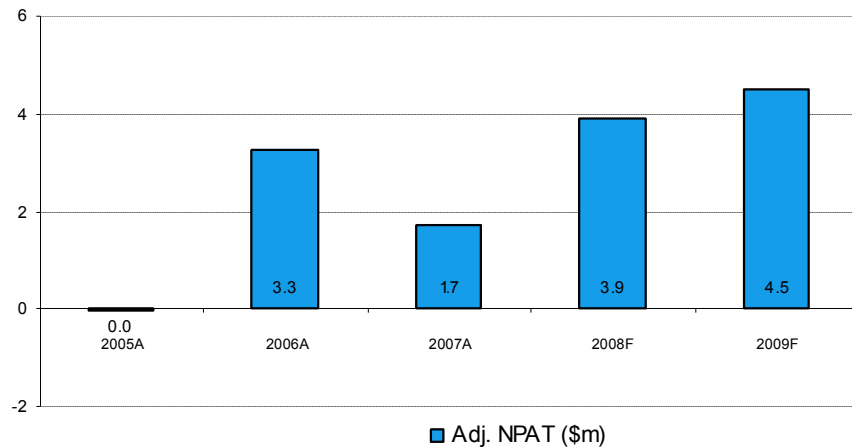
### Revenue and Revenue Growth



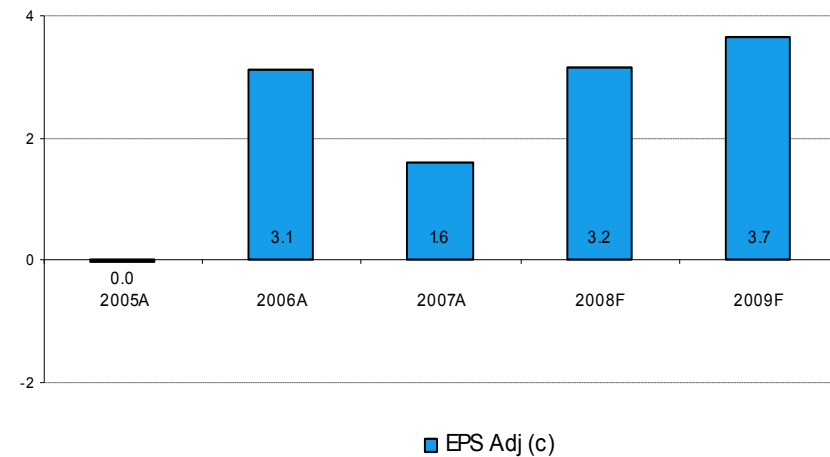
### EDITDA and Margins



### NPAT



### EPS



## **Recommendation Criteria**

### **Investment View**

Austock Research does not make a recommendation, or have an investment view in these “Company Snapshot” reports.

## **Disclosure of Economic Interests**

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- Austock Securities Limited;
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