

# ITL Limited

## Management changes



28 October 2004

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### At A Glance

#### Recommendation

short-term view	<b>Neutral</b>
long-term view:	<b>Outperform</b>
volatility index:	<b>Very high</b>

#### Investment Fundamentals

code:	ITD
stock price:	\$0.23
market cap:	\$23m

Y/E 30 June	03a	04a	05e
revenue (\$m)	19.9	21.7	25.0
reported profit (\$m)	n/a	-2.0	1.8
adjusted profit (\$m)	n/a	-1.4	2.5
EBITDA	n/a	3.1*	4.0
earnings per share (adjusted)	n/a	-1.4c	2.5c
price to earnings ratio	n/a	n/a	9.2x
dividend per share	-	nil	nil
yield	-	n/a	n/a
franking	-	n/a	n/a

\*Pro-forma basis

#### What does ITL Limited do?

ITL is an Australian based medical safety product innovator and manufacturer formed in 1994. To this point it has targeted the blood collection market where it has secured a dominant global position for specific products. ITL will continue to develop a new generation of medical safety devices to provide earnings growth.

ITL has also expanded into the design and manufacture of medical procedure kits that broaden its income base.

### Event

- ITL announces the resignation of Jag Dillon as Joint Managing Director.
- The termination payment to Dr Dillon will total \$850,000 (gross).
- Bill Mobbs, the other founding Director of ITL, will assume the role of Chief Executive Officer.

### Impact

**Aligns focus behind CEO** – Indications were that the Joint Managing Director roles were not working and were unable to provide a focus for the company across the two divisions. With Mr Mobbs assuming the role of CEO, this alignment can occur. One of Mr Mobbs first tasks will be to conduct a review to focus ITL on improving profitability and future growth.

**Payout removes our dividend expectation** – In order to negotiate Dr Dillon's resignation, the non-executive members of ITL's Board had to settle on a substantial termination payment. This unfortunately follows closely the amount of around \$2.6m expensed on the US Platypus litigation. Given this payout, we do not expect ITL will have the ability to pay a dividend in the current financial year. We are forecasting ITL will hold net cash of \$6.5m at 31 December.

**Stock overhang unlikely** – Management indicated that Dr Dillon's departure was amicable given the circumstances. Some may be concerned that Dr Dillon's holding of 17.955m ITL shares may represent a stock overhang. We however, do not see this as a concern given the current share price. Dr Dillon originally sold 7.965m shares into the IPO at \$0.50 each. Given the leverage the remaining holding has to share price movements up, this is unlikely to be an overhang for a considerable range in the share price.

**Operations remain on track** – Despite the machinations occurring at senior management level, the underlying operations appear to be travelling well. Importantly, revenue targets remain on track.

### Valuation, target & catalyst

Valuation: 36.5c

12 month price target: 55c

Catalyst: Steady delivery on earnings expectations

### Action & recommendation

We retain our short term Neutral recommendation. Despite the company trying to remain focussed on quietly getting on with the job of delivering results, this change in management, and the associated payment, is likely to upset the market. We expect though that material benefits will come from the change.

In the longer term, we remain confident that ITL will continue its turnaround and return to full profitability. Accordingly, our long term Outperform remains.

## Recommendation Definition

'Outperform' - return > 5% in excess of benchmark return

'Neutral' - return within 5% of benchmark return

'Underperform' - return > 5% below benchmark return

short term: 3 - 12 months

long term: 12 months - 2 years

## Volatility Index Definition

This factor has been calculated from the volatility of historic price movements.

**Very High** - Highest Risk. Stock should be expected to move up or down 60 - 100% in a year. Investors should be aware this stock is highly speculative.

**High** - Stock should be expected to move up or down at least 40 - 60% in a year. Investors should be aware this stock could be speculative.

**Medium** - Stock should be expected to move up or down at least 30 - 40% in a year.

**Low/Medium** - Stock should be expected to move up or down at least 25 - 30% in a year.

**Low** - Stock should be expected to move up or down at least 15 - 25% in a year.

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