

**ITL Group**

June 2006

**Medical Supplier – 25% Revenue Growth Forecast**

**Core Business:** The ITL Group (ASX:ITD) develops, manufactures and commercialises consumable medical products. ITL is focused on innovative medical devices for the application of blood collection, surgical procedure kits and related products.

**Procedure Kits:** ITL's Procedural Kit Division (PKD) manufactures and supplies customised surgical procedure kits. These kits contain the required gowns, drapes and the consumable medical equipment required for surgical procedures. Sales are mainly in Australia.

**Innovative Products:** ITL's Innovative Products Division designs and commercialises medical devices for the blood collection and medical consumable markets. Products include DonorCare a component on blood manufacturers' bags and SampLok Sampling Kit a solution to the transfer of platelet samples for bacterial detection testing. Research is being undertaken in next generation of needle products for whole blood collection, apheresis, dialysis and oncology. The company has contracts with distributors such as Baxter Healthcare (US, Europe and Australia), Terumo (US, Japan, India and China), Fresenius (Europe), Japan Medical Supplies (North America and Asia) and the American Red Cross, as well as selling directly into Australia and SE Asia.

**Manufacturing Capability:** ITL has fully accredited manufacturing facilities in Ipoh (Malaysia) and Melbourne (Australia). The Ipoh facility operates 24/7 and is a full manufacturing facility with tooling, plastic injection and clean room assembly. The Melbourne facility produces customised surgical procedure kits tailored to the individual surgeon's requirements.

**Key Drivers:** ITL has witnessed strong growth for the Half Year ending December 2005, and is on track to achieve 25% revenue growth for the fiscal year ending 2006.

- The Asian Market is a key revenue driver assisted by the recent acquisition of Heal Marketing Sdn Bhd (Malaysia) for \$2.4m. The acquisition is earning accretive immediately, as it enabled the to sign a \$6m contract with the Prince Court Medical Centre (Malaysia).
- Secondly, there is a growth trend towards the use of disposable drape, gowns and other medical consumables. In Australia only 7% of the surgical procedures use consumable kits. In comparison, the US the number is 90%. Presently, ITL has 30% of the market in Australian.

**Recommendation:** The company is forecast to experience strong sales growth. It generated its first profit on December 2005, we anticipate a NPAT of \$2.8m for the fiscal year 2006.

We recommend ITL as a Buy

Price	\$0.275
Recommendation	Buy
Stock Code	ITD
12 Month Target Price	\$0.515

**STOCK SUMMARY**

Market Capitalisation	\$28.8m
12 Month Price Range	\$0.30 - \$0.14
Monthly Share Turnover	2,884,130
Issued Shares	101.3m
Unlisted Options	3,800m
@ \$0.2 Ex Aug 06	3,550m
@ \$0.7 Ex Oct 06	0,250m

**DIRECTORS**

Julian Gosse	Chairman
Bill Mobbs	Chief Executive Officer
Roy Rose	Non Executive Director
Richard England	Non Executive Director

**MAJOR SHAREHOLDERS @ June 2006**

Bilbo Holdings Pty Ltd	22.0%
Mandill Pty Ltd	11.5%
ANZ Nominees Ltd	4.6%
National Nominees Ltd	3.3%
Dr J Dillon & Mrs K Dillon	3.1%
Mr C Carr & Mrs B Carr	2.0%
Invia Custodian (WAM Capital)	1.8%
Talston Pty Ltd	1.5%
Foo Chee Kim	1.2%
Irish Global Equity Ltd	1.2%
CDBF Pty Ltd	1.2%

	Jun-04a	Jun-05a	Jun-06e	Jun-07e	Jun-08e
Revenues [adjusted] (\$)	17.27	23.98	29.87	37.34	46.63
EBITDA (\$)	(1.00)	0.49	3.43	5.57	7.22
EBIT (\$)	(2.22)	(0.92)	3.01	5.15	6.80
NPAT (\$)	(2.03)	(0.14)	2.75	3.58	4.74
EBIT Multiple	(11.64)	(28.25)	9.05	5.29	4.01
FCF Multiple	(11.32)	(56.55)	7.32	13.60	7.00
PER	(12.74)	(186.28)	9.90	7.61	5.75
EV/BV [adjusted]	1.70	1.77	1.31	1.05	0.76
EV/EBIT	(9.12)	(23.80)	6.80	3.93	2.68
Diluted EPS [adjusted] (\$)	(1.71)	0.26	3.25	3.77	4.86
FCFPS (cents)	(2.30)	(0.46)	3.55	1.91	3.71
Dividend per share (cents)	0.00	0.00	0.00	0.00	0.00
NTA [adjusted] per Share (\$)	11.95	12.39	14.91	18.35	23.00



## The Company

The ITL Group designs and manufactures medical consumables and markets these to over 35 countries. The products are low value / high volume items that are standard procedural products for most hospitals.

The company reports its business segments in two divisions.

- The first is the Innovative Products Division that mainly focuses on blood banking products (specifically those used in aphaeresis and blood collection) and basic hospital equipment. For the year ending June 2005, the IPD division reported sales of \$15.966m and a profit of \$3.066m. This was up from \$12.191m and \$(1.031)m from 2004; respectively.
- The second division constructs standard and custom procedure kits. The standard kits are all the consumable instruments and equipment required for a standard surgical operation. The company currently provides kits for Arthroscopy, Caesarean, Lap and Ophthalmic; as well as general kits. The custom packs are designed for a specific surgeon's needs. For the year ending June 2005, the Procedure Kit Division (PKD) generated sales of \$17.690m with a profit of \$(1.040)m. This was up from \$8.912m and \$(0.100)m in 2004.

It is important to note that ITL is a turn-around-story. The company's management has made mistakes in the past. This resulted in major restructuring in November 2004, but now they have brought the company into a position where it is delivering growth.

### Recent Acquisition

In January 2006, the company acquired Heal Marketing Sdn Bhd (Malaysia) for \$2.4m, funded through a combination of equity and cash. The acquisition of Heal gave the company further distribution channels into the Malay Peninsular and other SE Asian Countries. In May 2006, the company announced a \$6m contract with the Prince Court Medical Centre. This contract was consummated through Heal. The entire contract will be supplied by September 2006 and we estimate the contract would generate profits of around \$1m. We would expect that additional service agreements would be signed with Asian hospitals in the near term.

### Key Market Drivers

The fastest growing division is the custom and standard pack preparation, and the Australian market contains a lot of potential for growth. Cardinal Healthcare Australia (100% subsidiary of Cardinal Healthcare) is the main competitor, holding the number one position in Australia. ITL is number two. Presently, there is not enough information to determine if ITL is taking market share from Cardinal Healthcare Australia or if both companies are benefiting from an expanding market.

In Australia, about 7% of Hospitals use customised surgical kits. ITL currently holds about 30% of current customised kit market. In Australia, the growth in operating room procedure kits is about 7% per annum.

By comparison, 90% of the US market uses disposable drape and gown kits. The trend in the Australian Market is that the use of kits is moving towards a US style utilisation profile.

It is important for the investor to recognise that the use of pre-packaged kits presents a cost and time saving for hospitals. Plus, these kits have hygiene advantages over laundered gowns and drapes. The use of kits reduces labour and overhead costs for Hospitals. The hospital can also manage cost and quality by ordering customised kits.

### Key Forecast Financials

The company provided guidance that the full year 2006 revenue would be about \$30.0m, with an EBITDA of \$3.5m to \$4.0m and a NPBT of \$2.7m to \$3.0m. This represents about 24% growth from the previous corresponding period. Intersuisse forecasts that 25% revenue growth for four years is likely.

	2005a	2006e*	2007e <sup>#</sup>	2008e <sup>#</sup>
<b>AUD</b>				
Revenue	23,812,772	29,765,965	37,207,456	46,509,320
EBITDA	2,748,538	4,464,895	6,511,305	9,301,864
NPBT	(793,114)	3,093,063	5,118,743	6,768,268
NPAT	139,043	2,752,862	3,583,120	4,737,787

\* Based on Company Guidance

<sup>#</sup> Intersuisse estimates

Note: Forecasts Do Not Include a dividend payment because the company has not informed the market that it will be paying a dividend in 2006.

### Dividend Payment Capabilities

The company has about \$4.8m of Franking Credits, 100% Fully Franked. In 2006, the company will have the capability of paying a fully franked dividend. We estimated that it is well within the company's reach to pay a 1¢ per share dividend for the fiscal year ending 2006. Nevertheless, the company has not informed the market that it will or will not be paying a dividend.

### Taxation Credits

The company has about \$2.2m in taxation losses, that can be used to off-set tax expenditure. This asset should increase profit growth in the fiscal year 2006, however we estimated that a more normal relationship between NPBT and NPAT would occur in 2007 and beyond.

### Recommendation

Intersuisse assessed the fair value of the company by four valuation techniques. All these techniques indicate that the company is undervalued.

Valuation Technique	Estimated Value
FCFF Valuation	\$0.784
EVA Valuation @ 11.65% WACC	\$1.007
DCF (Five Year) Valuation @ 12.5% Disc. Rate	\$0.957
Future Maintainable Earning	\$0.625

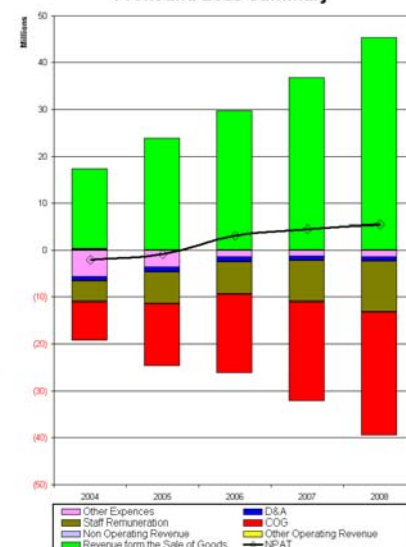
We believe the disparity between the FME and the FCFF, EVA and DCF valuations are due to the limitation of the FME not fully capturing the forecast growth. We also believe that the company could be trading at a discount because the market is waiting to determine if the company's management can deliver, given that ITD is a turn-around story.

We recommend ITD as a BUY.

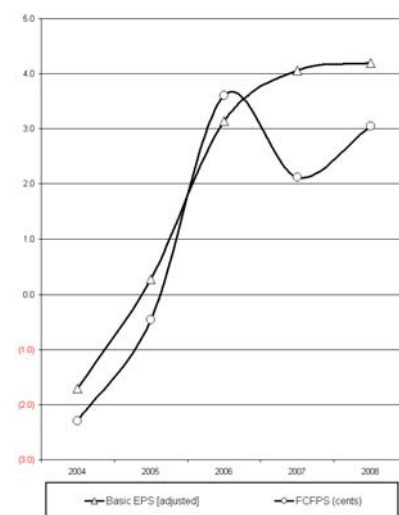
## Financial Summary

ITD	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
	Actual	Actual	Forecast	Forecast	Forecast
<b>Per share (cents)</b>					
Number of Shares (Number)	99.61	99.61	104.86	104.86	104.86
Basic EPS [adjusted]	(1.71)	0.28	3.32	3.81	4.91
Diluted EPS [adjusted]	(1.71)	0.26	3.25	3.77	4.86
Operating Cash per share	(2.30)	(0.46)	3.55	1.91	3.71
FCFPS (cents)	(2.30)	(0.46)	3.55	1.91	3.71
Dividend per share	0.00	0.00	0.00	0.00	0.00
NTA [adjusted] per Share	11.95	12.39	14.91	18.35	23.00
<b>Profit &amp; Loss (A\$ m)</b>					
Revenues [adjusted]	17.27	23.98	29.87	37.34	46.63
Sales of Goods	17.13	23.81	29.77	37.21	46.51
Gross Profit Margin	0.50	0.43	0.43	0.43	0.43
EBITDARD	(1.00)	0.49	4.46	6.51	9.30
Expensed R&D	0.00	0.00	0.00	0.00	0.00
EBITDA	(1.00)	0.49	3.43	5.57	7.22
EBIT	(2.22)	(0.92)	3.01	5.15	6.80
NPBT	(2.01)	(0.79)	3.09	5.12	6.77
Tax Credits / (Expense)	(0.03)	0.65	(0.34)	(1.54)	(2.03)
Minority interests	0.00	0.00	0.00	0.00	0.00
NPAT	(2.03)	(0.14)	2.75	3.58	4.74
NPAT [adjusted]	(1.70)	0.28	3.48	4.00	5.15
<b>Operating free cash flow (A\$ m)</b>					
NPBT	(2.03)	(0.14)	2.75	3.58	4.74
Depreciation and Amortisation	1.23	1.41	1.29	1.29	1.46
Working Capital	(1.59)	(2.02)	(0.32)	(2.87)	(2.30)
Others	0.11	0.29	0.00	0.00	0.00
Acquisitions and Disposals	0.00	0.00	0.00	0.00	0.00
Operating Cash Flow	(2.29)	(0.46)	3.72	2.01	3.89
Maintenance CapEx	0.00	0.00	0.00	0.00	0.00
Free Cash Flow At End of Period	(2.29)	(0.46)	3.72	2.01	3.89
Investing Cash Flow	(8.88)	(2.37)	(1.86)	(1.78)	(1.90)
Financing Cash Flow	17.74	(0.48)	0.16	(0.11)	0.12
Change in Cash	6.57	(3.31)	2.03	0.12	2.12
Cash At End of Period	6.58	3.28	5.31	5.43	7.54
<b>Balance sheet (A\$ m)</b>					
Net Cash and Short Investments	7.37	4.38	6.58	6.70	8.81
Current Debtors	3.83	4.50	5.62	6.81	8.44
Inventory	4.81	5.16	6.39	8.57	10.34
Other Current Assets	0.29	0.61	0.77	1.62	2.45
Current Creditors	4.55	4.59	5.42	5.94	6.95
Current Borrowings	1.32	0.48	0.13	0.03	0.00
Other Current Liabilities	0.03	(0.60)	0.39	0.43	0.52
Net Current Assets	10.40	10.18	13.43	17.30	22.58
Net Current Assets [adjusted]	10.09	9.21	13.39	17.30	22.58
PP&E	2.22	2.60	2.45	2.18	1.91
Non Current Assets	0.43	0.39	0.00	0.00	0.00
Capitalised Product Development	4.52	4.46	4.80	5.20	5.58
Intangibles	8.61	8.16	7.68	7.19	6.68
Non Current Liabilities	0.51	0.25	0.07	0.00	0.00
Non Current Borrowings	0.72	0.43	0.24	0.23	0.37
Net Assets	24.96	25.11	28.05	31.64	36.37
Net Tangible Assets [adjusted]	11.90	12.34	15.64	19.25	24.12
Minority interests	0.00	0.00	0.00	0.00	0.00
Convertible and Preference Shares	0.00	0.00	0.00	0.00	0.00
Shareholders Equity	24.96	25.11	28.05	31.64	36.37

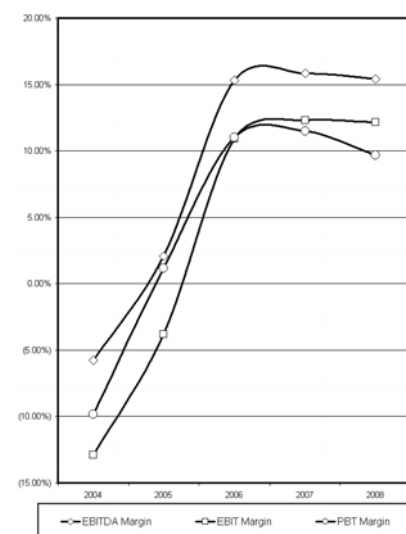
### Profit and Loss Summary



### Per Share Summary



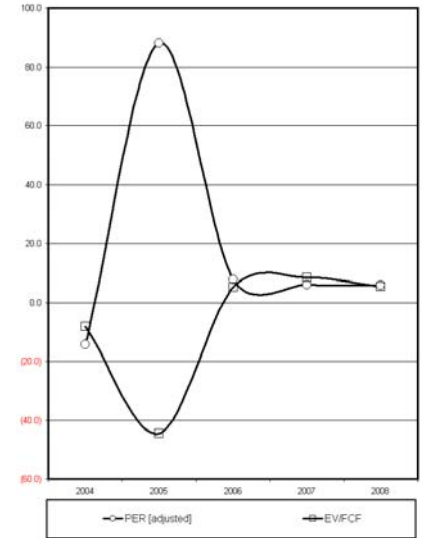
### Margin Summary



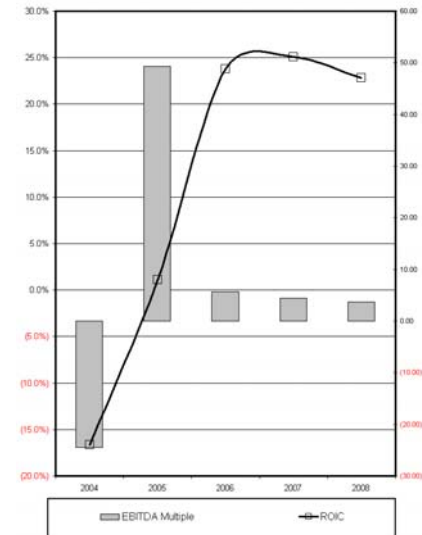
# Financial Analysis

ITD	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
	Actual	Actual	Forecast	Forecast	Forecast
<b>Stock, Debt, Credit (Days)</b>					
Stock Turnover	102.52	79.14	78.41	84.04	81.16
Debtors' Turnover	81.56	68.96	68.89	66.84	66.20
Creditors' Turnover	192.40	123.06	116.63	102.34	95.79
Working Capital [basic]	(8.32)	25.05	30.68	48.54	51.57
<b>Gearing (Percentage)</b>					
Gearing [adjusted]	0.06	0.03	0.02	0.01	0.02
Gearing II [adjusted]	0.06	0.03	0.02	0.01	0.02
<b>Dividends</b>					
Dividend Cover	NA	NA	NA	NA	NA
Dividend Yield	0.00	NA	NA	NA	NA
<b>Profitability Matrices</b>					
EBITDA margin	(0.06)	0.02	0.11	0.15	0.15
EBIT margin	(0.13)	(0.04)	0.10	0.14	0.15
PBT Margin	(0.10)	0.01	0.12	0.11	0.11
Current Ratio	2.76	3.27	3.26	3.70	4.02
Current Ratio [adjusted]	2.63	2.69	3.24	3.70	4.02
ROWC [adjusted, basic]	(0.22)	(0.10)	0.22	0.30	0.30
ROCE [adjusted, basic]	(0.14)	0.02	0.22	0.21	0.21
ROTA [adjusted, basic]	(0.19)	(0.07)	0.19	0.27	0.28
ROFA	(1.00)	(0.35)	1.23	2.36	3.55
ROIC	(0.17)	0.01	0.23	0.22	0.24
ROE [adjusted] (Basic)	(0.14)	0.02	0.22	0.21	0.21
ROE (DuPont)	(0.12)	(0.05)	0.12	0.14	0.16
ROA (DuPont)	(0.09)	(0.04)	0.11	0.16	0.19
Interest cover (Times)	(14.20)	(7.39)	46.99	165.31	218.27
<b>Productivity Matrices</b>					
Labour / Sales	0.26	0.28	0.24	0.24	0.24
Expensed R&D / Sales	0.00	0.00	0.00	0.00	0.00
Depreciation / Sales	0.04	0.03	0.02	0.01	0.01
Marketing / Sales	0.03	0.02	0.01	0.01	0.01
Profession Fees / Sales	0.18	0.04	0.01	0.01	0.01
<b>Growth Matrices</b>					
Revenue growth	NA	0.39	0.25	0.25	0.25
EBIT growth	NA	0.59	4.28	(0.71)	(0.32)
Basic EPS growth (cents) [adjusted]	NA	1.16	10.92	0.15	0.29
Dividend growth	NA	NA	NA	NA	NA
<b>Valuation Matrices</b>					
Market Cap (A\$ m) @ Current Price	25.90	25.90	27.26	27.26	27.26
EV	20.28	21.83	20.47	20.25	18.25
EV/BV [adjusted]	1.70	1.77	1.31	1.05	0.76
EV/Sales of Goods	1.18	0.92	0.69	0.54	0.39
EV/EBITDA	(20.33)	44.12	5.97	3.64	2.53
EV/EBIT	(9.12)	(23.80)	6.80	3.93	2.68
EV/FCF	(8.86)	(47.66)	5.50	10.10	4.69
FCF Multiple	(11.32)	(56.55)	7.32	13.60	7.00
EBITDA Multiple	(25.96)	52.36	7.95	4.90	3.78
EBIT Multiple	(11.64)	(28.25)	9.05	5.29	4.01
PER	(12.74)	(186.28)	9.90	7.61	5.75
PER [adjusted]	(15.22)	93.47	7.84	6.82	5.29
PEG [adjusted]	NA	0.80	0.01	0.45	0.18
<b>Valuation</b>					
FCFF Valuation	\$0.784	Per share			
EVA Valuation @ 11.65% WACC	\$1.017	Per share			
DCF (Five Year) Valuation @ 12.5% Disc. Rate	\$0.947	Per share			
Future Maintainable Earning	\$0.515	Per share			

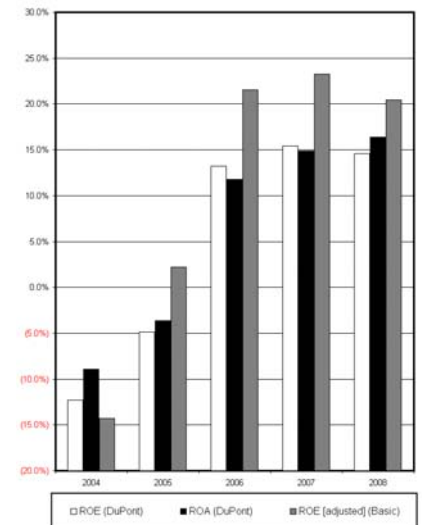
Value Summary



Profitability Summary



Asset Utility Summary



Peer Analysis		EPS Growth (%)			Price/Earnings (x)			Dividend Yield (%)		
		Current	F/cast Yr 1	F/cast Yr 2	Current	F/cast Yr 1	F/cast Yr 2	Current	F/cast Yr 1	F/cast Yr 2
		S&P/ASX 300	43.23	22.31	20.72	17.36	13.92	12.88	3.17	3.49
Health Care		49.87	17.73	17.58	51.14	26.72	22.58	1.30	1.78	2.08
ITD	ITL Group	39.04	25.00	25.00	9.90	7.61	5.75	-	-	-
ANN	Ansell	36.49	34.83	6.39	21.52	15.96	15.00	1.45	1.88	1.96
API	Aust Pharma Ind.,	(15.54)	25.70	23.38	20.57	16.36	13.26	5.16	5.16	5.36
COH	Cochlear	17.60	39.93	14.16	49.26	35.21	30.84	1.51	1.98	2.33
DVC	DCA Group	(47.68)	455.55	15.00	114.20	20.56	17.87	1.89	2.30	2.76
HSP	Healthscope	(37.04)	104.81	30.77	35.87	17.51	13.39	3.18	3.67	4.50
IBA	IBA Health	n/a	25.95	29.82	20.77	16.49	12.70	1.06	1.60	2.66
PLF	Prime Life Corporation	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
RHC	Ramsay Health Care	(9.15)	54.10	32.60	36.32	23.57	17.77	1.86	2.23	2.77
RMD	ResMed	0.72	43.51	26.32	48.51	33.80	26.76	n/a	0.00	0.00
SHL	Sonic Healthcare	30.84	123.93	12.44	55.36	24.72	21.99	2.32	2.68	3.17
SYB	Symbion Health	(6.88)	11.64	16.44	27.07	24.25	20.82	3.11	2.26	2.82
VGH	Vision Group Holdings	n/a	106.76	16.36	41.16	19.91	17.11	1.17	2.72	3.08

*Intersuisse and Consensus Estimates*

## Important Information

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*Prepared by Darren John Grubb PhD ASIA; Authorised by David McGlashan*

*8<sup>th</sup> June 2005*