

LiDCO (LID.L)

Medical Devices

8p

Half year results show early signs of being on track

LiDCO's half year results reported today show some early glimpses of what the future might be like. Headline revenues were up only a modest 3% but this masks underlying dynamics which while early are highly encouraging.

KEY POINTS

- **Monitors sold and placed up 69%** – The numbers of monitors sold and placed (85% sold for the moment) was up 69% driven primarily by the introduction in June of the **LiDCOrapid**.
- **To early to judge ramp up in sales of smartcards** – The time lag between sale/placement, delivery, installment and training related to **rapid** instruments implies that it is too early to make any judgments on the ramp-up of smartcard sales.
- **UK sales were up a brisk 25% with monitor sales up 72%**
- **Forecasts and valuation unchanged**

COMMENT

The numbers of monitors sold and placed (85% sold for the moment) was up 69% driven primarily by the introduction in June of the **LiDCOrapid**. Keeping in mind that the latter is sold at half the price of the **LiDCOplus**, the modest revenue uptick should not come as a surprise. Add to that the predictable and inevitable cannibalisation of **LiDCOplus** revenues by the **rapid** and the picture is complete.

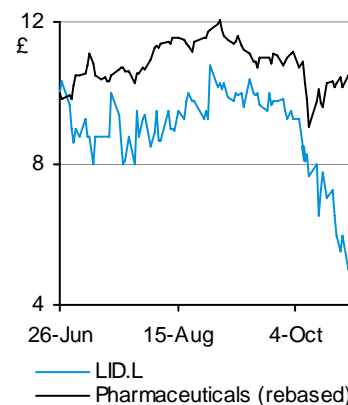
The time lag between sale/placement, delivery, installment and training related to **rapid** instruments implies that it is too early to make any judgments on the ramp-up of smartcard sales for the **LiDCOrapid**. Nevertheless, where the instrument is being used, the early uptake of cards has been somewhat higher than the 5 per month that we had estimated in our April initiation report. Overall, sensors (for the **plus**), smartcards and fees (again for the **plus**) were up 3% but the early ramp-up indications based on September smartcard revenues are very encouraging indeed (500 smartcards sold for a very limited instrument base).

Geographically, UK sales were up a brisk 25% with monitor sales up 72% driven by both instruments.

In the US, the shift in product mix has resulted in a reduction in sales and the late launch of the product has not translated into a significant uptake of smartcards yet. Also, its East Coast distributor KOL was only appointed recently and will need more time to ramp up its efforts.

Reported in a separate announcement on October 28th, Duke University Health System is converting its haemodynamic monitoring completely to LiDCO which has resulted in a \$250,000 order for 12 monitors (16 had

Price Chart



Valuation

£m	Core
Product	
LiDCOplus	20.8
LiDCOrapid	47.4
Less: overhead	53.8
Expected value of products	14.3
Add: other assets	3.2
Add: starting cash + new funds	2.2
Total current value for firm	19.7
Less: bank & other debt	0.6
Total value to equity claims	19.1
Less: warrants	0.4
Ordinary equity holders	18.7
Value per share (£)	0.13

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been installed previously) which includes 10 LiDCO*plus* monitors and 2 *rapids*. The company believes that the potential in this account alone is probably at least double the 28 which are currently installed or on order.

In Continental Europe the shift in product mix combined with the summer holiday (which makes Europe seasonally weak in any case) has also resulted in a fall in headline revenues although sensor/smart card sales were stable. We would anticipate a much stronger second half for this region driven by a significant ramp-up in *rapid* and associated smartcard revenues.

The Rest of the World continues to display very strong revenue growth (albeit from a small base). Monitor sales were up 31% with sensor sales up 38%. New distributors have been added in Russia, Israel, Canada, the Middle East and Argentina, which should contribute to further growth in this region.

With the refusal of Medicare to reimburse hospitals for catheter-based haemodynamic monitoring (HDM) as well as any complications triggered by their use, we believe that the dynamics in this field are about to shift in a major way. Coupled with increasing evidence that surgical and overall critical care outcomes are improved through the use of HDM, we see the market shifting favourably towards this technology.

In this vein, LiDCO has announced that its instruments have been selected as the sole monitoring equipment for several prospective studies in the US which have been funded based on pilot studies demonstrating improved outcomes. Additionally, a multi-centre transplantation donor optimisation study has been initiated in the US using the LiDCO*plus* based on earlier data demonstrating that the use of this instrument to maintain good haemodynamics in donor corpses awaiting organ harvesting yielded almost a doubling (3.7 versus 2) of organs per donor. The value of this to recipient patients, the harvesting companies and the hospitals that carry out these transplants is very significant indeed and could constitute a significant business worldwide for LiDCO in the coming years.

All in all, the first half of fiscal 2009 has been a very eventful one. Apart from some working capital adjustments which we will need to make to account for higher LiDCO*plus* inventories (due to more rapid cannibalisation and longer manufacturing lead times), we see no evidence in this report that would push us to change the forecasts that we constructed last April for our initiation report. Hence our core valuation of 13p and our optimistic valuation of 26p remain unchanged.

We continue to believe that the HDM market is ripe for the picking and that LiDCO's product offering puts it in pole position to benefit from the improving dynamics of this market which we value to be worth around £1.2 billion for both surgical and critical care applications.

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