Edison investment research

12 February 2007

Mediwatch

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
04/05	1.8	(0.71)	(0.79)	0.00	N/A	N/A
10/06e	2.7	(0.95)	(0.99)	0.00	N/A	N/A
10/07e	9.4	0.13	0.10	0.00	N/A	N/A
10/08e	12.5	1.08	0.85	0.00	12.4	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items;18 month trading period to October 2006

Investment summary: Moving into profit

Mediwatch's medium term potential has been transformed by the acquisition of Medtronic's Urodynamic Products business. The deal was on very attractive terms, more than doubling group revenue and establishing a direct presence in the US, with a concurrent share placing financing associated working capital needs. The risk/ reward ratio is high, but internal budgets suggest meaningful profits in 2007/08.

Profitable trading during 2006/07

Results for the extended 18 months trading period to October 2006 demonstrated steady revenue growth, with substantially reduced losses before R&D expenditure and goodwill amortisation. We expect Mediwatch to reach operational breakeven during the course of the year to October 2007.

Transforming acquisition

The Medtronic deal was structured to enable Mediwatch to acquire the inventory and intellectual property of the business for US$2.0m (£1.1m) in cash, with no payment for goodwill. The acquisition materially extends Mediwatch's product-base, while the group has engaged key members of Medtronic's former sales team to facilitate expansion plans into the US market.

Prostate and bladder cancer diagnosis

Key products from the acquired business are largely complementary and are aimed at early diagnosis of urological disorders. Prostate and bladder cancer are recognised as two of the most prominent causes of early death among men.

Valuation: Significant potential

The revenue potential of the acquisition has yet to be fully recognised in Mediwatch's share price. On the basis of current sector ratings, we believe that the shares will rise significantly above current levels, if medium-term revenue targets are delivered.

Price	10.5p
Market Cap	£13.3m

Share price graph

Share details

Code	MDW
Listing	AIM
Sector	Healthcare
Shares in issue	126.9m

Price

	High	Low
52 week	12p	7p

Balance Sheet

Debt/Equity (%)	N/A
NAV per share (p)	3.2
Net cash (£m)	1.04

Business

Mediwatch develops and distributes equipment for the detection of urological disorders, including prostate cancer. It has recently materially extended the product range and established a presence in the US.

Valuation

	2006	2007e	2008e
P/E relative	N/A	151%	161%
P/CF	N/A	N/A	N/A
EV/Sales	6.8	1.3	1.3
ROE	N/A	11%	11%

Geography based on revenues

UK	Europe	US	Other
81%	0%	0%	19%

Analyst
Nigel Harrison 020 7190 1758
nharrison@edisoninvestmentmanagement.co.uk

Mediwatch is a research client of Edison Investment Research Limited

Investment summary: Moving into profit

Company description: Urological solutions

Mediwatch was established in 1995 and has developed a range of specialist medical equipment for the diagnosis of urological disorders. The group joined AIM in 2000 through a reverse into Prostcare, which at the time valued the business at £8m. While the vast majority of sales have been generated in the UK, there is a substantial indirect export business involving a small number UK based agents, supplying into Europe, North America and Asia, notably Japan. Group revenues are set to increase rapidly following the acquisition of the former Medtronic Urodynamic Products division (UD), which has introduced a fundamental presence in North America.

Valuation

Mediwatch's share price is well below its five year high point and, on an historic EV/sales ratio of 6.8x, looks expensive relative to other med-tech stocks. On the basis of post-acquisition revenue targets, this multiple comes down to an attractive 1.3x for the year to October 2007. Moreover, the group is targeted to earn a sufficient amount to cover R&D costs in the current year and to break through into meaningful profits the following year. If management can deliver these targets, the outlook at that stage would indicate a share price significantly above current levels.

Sensitivities

The key sensitivities relate to the integration and development of the acquired business, which is both global and substantially larger than Mediwatch. It will prove challenging to integrate the two sales forces effectively as historically Medtronic product sales have had the benefit of a strong and highly regarded parent company. Management of working capital, which will be substantially higher after the acquisition, represents another fundamental challenge for a small central team.

On the other hand, we see little sensitivity to the underlying level of economic activity. Group products are designed to offer simple diagnostic procedures executed at relatively low cost by less technically skilled operators. We believe that the cost pressures on medical authorities throughout the world will ensure consistently increasing demand for group products.

Financials

Delivering profits and integrating the acquired business are fundamental:

- Benefiting from past investment and the improved and enlarged product range, the group is currently generating revenues to cover operating costs before R&D expenditure and goodwill amortisation.
- The recent fund raising operation raised sufficient funds to finance the acquisition and to support indicated consequent increased working capital requirements. Although Mediwatch is targeted to move into debt during 2006/07, we expect the group to be operationally cash positive from 2007/08 onwards.
- After integrating the two businesses in the full year to October 2007, we look for meaningful profits in the following year.

Company description: Tackling urological diseases

Mediwatch designs and distributes a range of equipment for the rapid and accurate detection of urological disorders. The group focuses its design skills towards products that can be used by a range of medical professionals, including both nurses and doctors. They are targeted at the mid-price range of the diagnostic equipment market (the low-end being basic urine tests and the high-end MRI procedures etc). The recent acquisition of Medtronic's Urodynamic Diagnostic business has introduced a complementary range of products, which will materially lift the annual rate of sales over the next two to three years.

Background

Mediwatch was established by its present chief executive in 1995, focusing on early screening in primary care. More specifically, the group philosophy was to create and market products aimed at responding to the need for early diagnosis of a growing number of urology problems, notably prostate diseases. The business was reversed into the AIM-listed Prostcare in October 2000.

Although progress has fallen behind early expectations in terms of both product development and the timing of revenue growth, Mediwatch has been able to build up an impressive product portfolio, which now has the potential for a rapidly rising level of throughput. Like many other businesses going through the product development and acceptance stage, the group has been involved in a number of fund raising exercises (totalling around £5m) with a series of equity issues since the reverse. This has enabled the group to take its product range into the market place.

Products are designed and developed in-house, with components largely sourced from third party suppliers and manufactured locally on behalf of the group.

The original Mediwatch business has four key products:

- Portascan – a portable battery-operated ultrasonic scanner, which can be operated at any location to provide instant, non-invasive, bladder volume measurements. It allows the operator to assess and diagnose a wide range of bladder conditions and can store up to twenty images. It comes with a built-in printer which automatically times and dates all records. Mediwatch has developed an enhanced version, the Portascan+, for which deliveries have just commenced.
- Portaflow – an easy to use, battery operated self-contained urinal, with an exchangeable commode enabling either male or female use. It is used to make measurements of the flow rate and produces an interpretative nomogram of the urine stream to support diagnosis of potential urinary problems. The product is portable (it can be packed away into a small shoulder case) and well suited for home visits and remote clinics. Mediwatch has developed an enhanced version with a wireless connection to a database or laptop computer.
- Bladderwatch – a system for detecting bladder cancer, following treatment. The system is based on the rapid detection of tumour associated antigens in urine. It can be used to detect as well as grade tumours at an early stage and is sufficiently sensitive to detect

ones that can be missed by cytology (biopsy). It uses monoclonal antibodies to detect the presence of bladder tumour associated antigens in urine.

- Multiscan – is an innovative combination product designed to provide a one-stop comprehensive urological assessment. It can produce instant, non-invasive bladder volume calculations and kidney or prostate size measurements. The Multiscan has a TFT touchscreen for control with Bluetooth wireless connection to a printer and Portaflow. It can produce accurate, magnified images and provide integral database storage while producing comprehensive reports on the bladder and prostate.

A number of other products, under development and to be marketed in the near future, include:

- Bioscan (PSAwatch) – a reader which produces a rapid (<10 min) quantitative prostate-specific antigen (PSA) level result from a finger-prick blood or venous blood sample. The disposable test strips offer sensitivity and specificity of 99.5% and 0.25ng/ml precision. It requires no special infrastructure or external support for use and has been designed to integrate effectively with Multiscan and other diagnostic products. The product is in the final stages of its development and is targeted to be available on the market during the first half of 2007.
- PocketScan – is a hand-held product which combines Multiscan technology with complete portability; it is due to be available to the market during the second half of 2007.

Urodynamic Division of Medtronic (UD)

In December 2006, Mediwatch completed the acquisition of the inventory and intellectual property of the Urodynamic Division of Medtronic for US$2.0m (£1.1m). This was a transforming deal, introducing complementary products, including disposables, whilst at the same time providing more effective access to important North American markets. It provided the group with critical mass, adding substantial revenues and accelerated the group's move into profits.

Mediwatch initially signed a manufacture and supply agreement with Medtronic, the leading US based medical technology group, in May 2006. The original plan was for Mediwatch to organise the manufacture and distribution of Medtronic urology products in the UK. As the deal was progressing, Medtronic management decided to concentrate on certain core businesses, leading to a decision to exit from each of its diagnostic products operations.

Under the deal, Mediwatch acquired the inventory and intellectual property from Medtronic for the underlying stock valuation at the time of transfer. The attractive terms reflect the desire of Medtronic to find a safe home for the business to avoid the possibility of any adverse effects on its continuing businesses, which might otherwise be caused by the disposal. Mediwatch had already started the manufacturing process for Medtronic urology products in the UK, using its own supplier base; these arrangements naturally continue following the acquisition.

Mediwatch is to set up its own US sales and marketing operation, employing key former UD personnel. A number of key individuals have already been identified, with a current team of 10 people, which is likely to be expanded in line with revenue growth over the next 12 months.

Complementary products

The product range does have some overlap, but is largely complementary to the Mediwatch range:

- Duet Logic G|2 – is a Microsoft Windows-based urodynamics workstation for fast, straightforward testing and reporting and is aimed at clinics where logic, efficiency and economy are essential.
- Duet EnCompass System – provides an all-in-one functional diagnostic system for urodynamics, anorectal manometry and neurophysiological testing. The flexibility of the system is designed to meet both the clinical needs of individual physicians and research requirements of pelvic floor laboratories. In either setting, the full range of testing can be completed in less than an hour.
- Medtronic Urodyn 1000 Stationary Uroflow Recorder– an industry standard product that provides non-invasive uroflow studies, including screening for bladder outlet obstruction surgery follow-up and drug treatment monitoring.

Equally significant is the supply of accessories and other disposables into the market place, which have historically represented almost 50% of UD revenues. These comprise a comprehensive range of specialist electrodes, catheters, pressure transducers to ensure the smooth and effective operation of the equipment. Successful negotiations with Medtronic's leading suppliers have led to ensure a smooth transmission of the business in the US. UD also operates a service and support operation aimed at maintaining effective use of group products. Mediwatch intends to continue the development of this aspect of the overall business, also introducing disposables.

Experienced management team

Mediwatch's management team has the ability and experience to take the group forward effectively. Chief executive Philip Stimpson is a qualified electronics engineer, with extensive experience in the medical field in both the UK and North America, having set up, established and successfully sold on two medical products businesses. He is responsible for the day-to-day management of the group, supported by teams with responsibilities for product development, manufacturing operations and sales & marketing. Finance director Kevin Middis has many years experience in a similar role with a successful quoted public company, Richardsons Westgarth; Kevin has indicated that he wishes to concentrate on his consultancy business and will step down from the board shortly, when an appropriate full-time replacement has be recruited.

The non-executive content of the board is also appropriately qualified, including two medical research specialists: Omer Karim is a consultant urological surgeon based in the UK, but with strong links in the US and a Fellow of the globally recognised Brady Urological Institute at the Johns Hopkins Hospital in Baltimore; Mark Emberton is a senior lecturer in urology and nephrology at University College of London, and has written a number of important papers on the subject. Chairman Dr John Forrest is an electronic engineer having built up an international research group in microwave and optical technologies – he is a former chief executive of NTL. Dr Wang Chong has 17 years experience in the healthcare industry, having served on the boards of several healthcare companies, including Lipoxen.

Strategy to build revenues

Having established a sound product portfolio, management focus has shifted fundamentally towards the building of revenues. Mediwatch achieved a nominal profit (before R&D expenditure and goodwill amortisation) during the final six months of the extended trading period to October 2006. With gross margins continuing at close to 40%, rapid growth in revenues will impact quickly and positively on the group's bottom line. A strategy has been established for the organic growth of the original Mediwatch product range, but the UD acquisition has transformed the potential.

Organic growth

UK sales have been slow to build, partially because of a general reluctance of UK health professionals to allow diagnostic procedures, currently carried out by highly qualified professionals, to be undertaken by lower qualified personnel. However, with a growing emphasis on the use of specially trained nurses to conduct routine diagnostic procedures (stemming from increasing cost pressures), Mediwatch management now believes that its products are positioned to benefit from this change.

While initial revenues were generated in the UK, overseas markets have been developed through agents. Significant distribution agreements have been established in recent years with C R Bard (UK and overseas), GE International and MC Medical, a subsidiary of Mitsubishi, (for Japan). In this context, Mediwatch signed a bilateral agreement with Medtronic to act as distributor in local markets for each other's urological products. That agreement, of course, has since been superseded by the acquisition of the Medtronic urological division.

Marketing is aimed principally at urologists, who will tend to recommend the purchase of the products by hospitals and primary care trusts. The product is suitable for use in a number of areas, notably general practices, private hospitals/clinics and research laboratories.

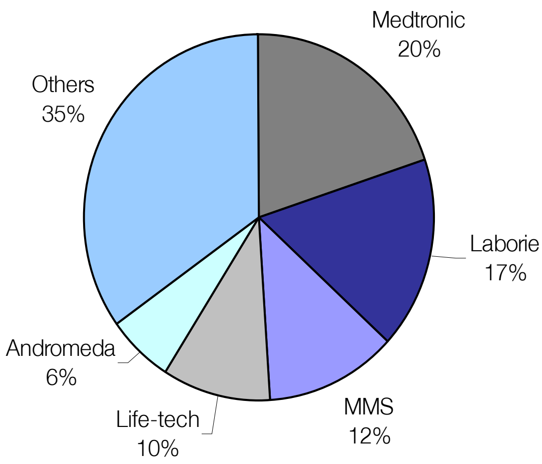
There is considerable competition, although most operators tend to target either the higher or lower segments of the market, rather than the middle segment tackled by Mediwatch. Management estimates the market to be growing at around 6-8% per annum worldwide. The main marketing emphasis is towards the users of lower-priced products, offering an easy-to-use alternative where the higher purchase price can be balanced by more effective usage.

The US accounts for the largest proportion (55%) of the urodynamics market, while other important markets are in Western Europe and Asia, notably Japan

Doubling of throughput following the acquisition

Global sales of UD amounted to US$22.2m (£12.0m) in 2004/05, some 44% of which were supplied into the US and Canadian markets. Other main markets are in Europe, Japan and the emerging Asia Pacific markets. Whilst the rate of growth in US sales has slowed in recent years, partially because of problems associated with continuity of supply, there has been an increasing momentum of export Global Urodynamic market shares sales from the US, especially into Europe.

Exhibit 1: Breakdown of global Urodynamics market



Source: Mediwatch estimates

Because of the decision to take on a large part of the former Medtronic sales team, we are assuming, in our estimates, that much of the US revenues will be retained, but we are taking a more cautious view on revenues into the rest of the world. The combined group will have some 4,000 customers, half of which will be in the USA and Canada. The group will be represented in other overseas markets by a network of dealers/agents. Mediwatch management has indicated the global market for urology sector products to be valued at £350m, comprising some £150m capital equipment and £200m disposables.

The Medtronic product range dovetails neatly with Mediwatch's existing products, especially the consumables, which can quickly be assimilated into the overall product offer, demonstrating a greater product depth and raising the credibility of the combined business. Equally significantly, a potentially very serious competitor, with greater financial muscle, has been eliminated.

Favourable terms

The terms of the acquisition were highly favourable to Mediwatch. The agreed consideration of US$2.0m (£1.1m) reflects the value of the inventories held within the UD business at the time of the deal. There is no payment of goodwill for the intellectual property in the former Medtronic product portfolio, while the consideration will be paid over a number of months, as the inventory is sold into the market place. Obviously, this inventory will need to be replaced, leading to a substantial rise in working capital over the 12 months to October 2007. In addition, the group will also have to finance the setting up of its US operation, equipping a sales team and creating a new office.

The group raised £2.1m by way of a placing of ordinary shares, with four of the five main board directors participating in the placing; in addition, we understand that several senior employees also acquired shares.

Sensitivities

Will the acquisition work?

The key sensitivity at Mediwatch relates to the acquisition of UD. While management is confident about the quality of the product-base being acquired, there are clear risks about whether the revenues can be sustained. Medtronic has a leading global reputation, which will have given certain credibility to the equipment and its sales force, making it easier to market its strengths more effectively.

While Mediwatch management has worked closely with the vendors to assess the most appropriate individuals to be offered employment in the new enterprise, their performance in the market place cannot be guaranteed. In our calculations going forward we have tried to take a conservative view in terms of revenue attrition. Moreover, while the new sales force has expressed considerable optimism, it is equally difficult to assess the speed with which existing Mediwatch products will be accepted in the US market place.

The new sales team is highly motivated, with earnings closely related to results. We understand that individual sales targets agreed by the new team are in excess of the projections shown in this report.

Product development

There is a limit to which product developments can be protected by patents. Mediwatch is operating in a competitive market and cannot expect its competitors to look at its new products without trying to improve upon them. We believe that the ongoing R&D expenditure (£0.8m per annum) is fundamental to this aim. In addition to funding new products, the group is also constantly looking to upgrade the specification and performance of the existing portfolio. The timescale for securing FDA and CE approvals for new products does, however, provide added protection, raising the cost of entry for potential new competitors.

Macro issues

The healthcare industry tends to be more vulnerable to political interference than to macro issues, especially in those countries where health services are largely in the public sector. Demand for equipment will reflect the availability of funds within the various health authorities, which are frequently the subject of political will. On the other hand, experience shows that if there is a perceived need for a particular type of investment, the funds can usually be found, almost regardless of the state of the local economy.

Urological disorders are on a progressively rising trend, with an increasing awareness of prostate cancer as the second largest cause of cancer mortality among men. We understand that demand for urological testing equipment has been rising at some 6-8% per annum in recent years. We believe that as products become more user-friendly and costs associated with their operation reduce, then the level of growth in demand can be expected to rise further.

Valuation

It is difficult, at this stage, to assess a realistic valuation for Mediwatch shares. The group has yet to earn profits and is tackling a global market from a relatively small base. On the other hand, it promises to deliver significant organic and acquisition based growth in revenues over the next three years. Investment in smaller companies has a higher risk profile, especially for product development businesses. However, the market capitalisation of £13.3m is modest in relation to the overall opportunity. If our estimates are delivered over the next two to three years, the potential at that stage would warrant a significantly higher share price.

Peer group inconclusive

Conventional bases for valuing shares, involving earnings ratios, are largely inappropriate for product development businesses. We have therefore looked at a number of companies all of which are involved in the design and marketing of medical equipment.

Exhibit 2: Peer group comparison

Note: Prices as a close, 24 October 2006

Company	Price (p)	Market Cap £m	Net cash (Debt) £m	EV £m	Sales £m	PBT (Hist) £m	PBT (Prosp) £m	EV/ Sales X
Deltex	17.5	14.0	0.4	13.6	3.0	(1.8)	(1.6)	4.5
IDMoS	112.5	20.7	1.4	19.3	Nil	(2.8)	(2.5)	N/A
LiDCO	9.75	11.5	2.0	9.5	3.4	(2.0)	(2.3)	2.8
Medical House	31.75	19.1	(4.1)	23.2	5.6	(1.1)	(1.0)	4.1
Mediwatch	10.5	13.3	(1.0)	12.3	1.8	(0.6)	0.1	6.8

Source: Hemscott; Edison estimates

The share price of each company has fluctuated as sentiment has shifted. None is close to its three year high and Mediwatch, down by 40%, had fallen further than most, before recovering sharply following the recent acquisition. EV/sales is probably the most appropriate basis for comparative valuation, although the extent of fund raising operations can influence calculations unduly, while figures also show quite a wide range. Mediwatch seems overvalued on this basis, but this is balanced by the material increases in medium-term revenue targets; on a prospective basis the group’s EV/Sales ratio comes down from 6.8x to 1.3x, less than half the figure of the best of the above companies. While there are many hurdles to negotiate before 2007/08, our current estimates which indicate normalised EPS of 0.85 per share, would lead to a share price significantly above its current level, given the high teens P/E rating typical in the healthcare sector.

Financials

Moving towards profitability

Mediwatch came to the City with an exciting product range which appeared to fill a niche in its chosen market place. Revenues fell short of earlier expectations, with ongoing upgrading of products necessary to meet the expectations of customers. The group has now passed the peak of development expenditure. Figures for the 18 months to October 2006 showed the group to be earning sufficient margin to absorb all costs, including interest, prior to ongoing R&D costs, (currently running at some £60k per month) and goodwill amortisation.

In the current year, we expect to see sufficient revenue growth to cover R&D expenditure, although there will still be a modest loss after goodwill amortisation. Thereafter, with a full year's contribution from the former Medtronic products and sales team and continuing organic growth, we should see group profits (before goodwill amortisation) rising above £1m.

Working capital to rise as result of acquisition

The acquisition consideration involves the purchase of inventories, valued at £1.1m. Our estimates suggest a significant rise in revenues over the next three years from the £1.8m annual rate during 2005/06 to more than £15m; working capital can be expected to rise by some £3.5m over this period to support the increased level of trade. While equipment will be manufactured in the UK, the increasing globalisation of the group's market will make control of both debtors and inventory levels significantly more difficult than hitherto.

Strengthening balance sheet

As previously mentioned, the ongoing cost of product development since flotation, has been financed by a series of relatively modest equity fund raising operations. The balance sheet is typical of a business nearing the end of its product development stage. With assembly and manufacture contracted out to a local third party supplier and R&D expenditure written off as incurred, the majority of assets will continue to be in the form of working capital.

During the extended 2005/06 trading period, there was an operational outflow of a further £1.5m. This was financed by two share placings totalling £2.6m, the last related to the acquisition. At October 2006, there was net cash of £1.0m, all earmarked to meet the inventory payments payable to Medtronic. Including the above payments, we estimate an increase in working capital of just over £2.0m in 2006/07. This will lead to the group to moving into debt of close to £1.0m at October 2007. The group should become operationally cash positive over the subsequent two years as revenues continue to rise and the group moves into profit.

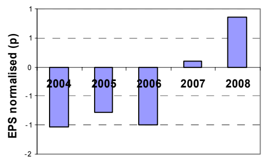
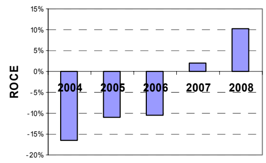
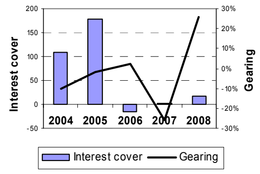
Two factors emerge under IFRS, which could have an impact on assets and earnings in the future:

- Goodwill – arose at the time of the reverse into Prostcare and has since been written off at 10% per annum (£0.35m). We assume that there will be no further regular write-offs under IFRS, although an impairment assessment will presumably be necessary. If our revenue and profit targets are met, the ongoing book value would not appear excessive.
- R&D Expenditure – it has been group policy to write off R&D expenditure as incurred. Under IFRS, companies are to capitalise R&D expenditure when products come to the market, amortising it over the anticipated lives of the various products concerned. We understand that management would prefer to continue with its earlier policy, but it remains to be seen whether group auditors can be satisfied that the more conservative policy is appropriate.

Exhibit 3: Financials

30th April to 2005; then 31October	£'000s	2005	2006	2007e	2008e
Accounting basis		UK GAAP	UK GAAP	UK GAAP	UK GAAP
PROFIT & LOSS					
Revenue		1,768	2,651	9,400	12,500
Cost of Sales		(1,046)	(1,660)	(6,000)	(7,350)
Gross Profit		722	991	3,400	5,150
EBITDA		(677)	(838)	289	1,241
Operating Profit (before GW and except.)		(713)	(896)	197	1,147
Goodwill Amortisation		(347)	(521)	(347)	(347)
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		(1,060)	(1,417)	(150)	800
Net Interest		4	(56)	(66)	(63)
Profit Before Tax (norm)		(709)	(952)	131	1,084
Profit Before Tax (FRS 3)		(1,056)	(1,473)	(216)	737
Tax		0	0	0	0
Profit After Tax (norm)		(709)	(952)	131	1,084
Profit After Tax (FRS3)		(1,056)	(1,473)	(216)	737
Average Number of Shares Outstanding (m)		89.9	95.9	126.9	126.9
EPS - normalised (p)		(0.79)	(0.99)	0.10	0.85
EPS - FRS 3 (p)		(1.17)	(1.54)	(0.17)	0.58
Gross Margin (%)		40.8%	37.4%	36.2%	41.2%
EBITDA Margin (%)		(38.3%)	(31.6%)	3.1%	9.9%
Operating Margin (before GW and except.) (%)		(40.3%)	(33.8%)	2.1%	9.2%
BALANCE SHEET					
Fixed Assets		2,955	2,484	2,226	1,846
Intangible Assets		2,777	2,256	1,909	1,562
Tangible Assets		178	228	317	284
Investment in associates		0	0	0	0
Current Assets		702	2,349	4,108	4,428
Stocks		177	243	1,388	1,634
Debtors		346	851	2,720	2,794
Cash		179	1,255	0	0
Current Liabilities		(582)	(682)	(2,396)	(1,659)
Creditors		(567)	(616)	(1,579)	(1,374)
Short term borrowings		(15)	(66)	(817)	(285)
Long Term Liabilities		(235)	(152)	(154)	(99)
Long term borrowings		(235)	(152)	(154)	(99)
Other long term liabilities		0	0	0	0
Net Assets		2,840	3,999	3,784	4,516
CASH FLOW					
Operating Cash Flow		(718)	(1,360)	(1,762)	716
Net Interest		4	(56)	(66)	(63)
Tax		0	0	0	0
Capex		(30)	(96)	(181)	(61)
Acquisitions/disposals		0	0	0	0
Financing		610	2,632	0	0
Dividends		0	0	0	0
Net Cash Flow		(134)	1,120	(2,009)	592
Opening net debt/(cash)		(63)	71	(1,037)	971
HP finance leases initiated		0	(12)	0	0
Other		0	0	0	0
Closing net debt/(cash)		71	(1,037)	972	379

Source: Company accounts / Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	◖
			Pensions	○
			Currency	◖
			Stock overhang	○
			Interest rates	◖
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 03-08e	N/A	ROCE 07e	2.0	Gearing 07e	25.7	Address:	
EPS CAGR 05-08e	N/A	Avg ROCE 04-08e	N/A	Interest cover 07e	3.0	Swift House, Cosford Lane Rugby, Warwickshire CV21 1QN	
EBITDA CAGR 03-08e	N/A	ROE 07e	3.5	CA/CL 07e	1.7		
EBITDA CAGR 05-08e	N/A	Gross margin 07e	36.2	Stock days 07e	53.9	Phone	01788 547888
Sales CAGR 03-08e	62.2	Operating margin 07e	2.1	Debtor days 07e	106	Fax	01788 536434
Sales CAGR 05-08e	67.7	Gr mgn / Op mgn 07e	17.3	Creditor days 07e	60.2	www.mediwatch.com	

Principal shareholders	%
Philip Stimpson	16
Omer Karim	7
Other directors	3
Singer & Friedlander	10
City Equities	8
Brewin Dolphin	8

Forthcoming announcements/catalysts	Date *
Preliminary results	Late January 2007
AGM	Early March 2007
Interim results	Late June 2007
*Note: * = estimated*	

Management team
CEO: Philip Stimpson
Philip Stimpson is a qualified electronic engineer with more than 30 years experience in the medical industry, working in both North America and Europe. He has already built up and successfully sold on two equipment manufacturing businesses.
CFO: Kevin Middis
Kevin Middis is a fellow of the Chartered Institute of Management Accountants. He brings substantial public company experience to the board, having spent 13 years as finance director of Richardsons Westgarth. He is currently a business consultant and director of two other SMEs.
Chairman: Dr John Forrest
Dr John Forrest, a former chief executive of NTL, brings a combination of technical and commercial experience to the group board. His impressive academic record includes the building of an international research group in microwave and optical technologies.