

16 May 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
10/06	2.7	(0.95)	(0.99)	0.00	N/A	N/A
10/07e	7.5	0.13	0.10	0.00	125.0	N/A
10/08e	11.0	1.08	0.85	0.00	14.7	N/A

Note: \*PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

### Investment summary: New finance director

Recent press releases have highlighted progress since our February report. Revenue from the former Medtronic business are now in line with expectations, although running behind previous targets because of transition delays; earlier profit and EPS targets remain realistic. The group has now launched PSAwatch and signed a new Japanese distribution agreement. Equally important is the appointment of a full time finance director, now that revenues are beginning to move ahead strongly. The risk/reward ratio remains high, but medium term objectives remain on track.

### Full time finance director appointed

Mediwatch has appointed Colin Kunz as group finance director from 1 May 2007. He replaces Kevin Middis, who has successfully managed group finances on a part time basis for four years. Colin brings the appropriate degree of skills and experience to the group, on a full time basis, as necessitated by last year's major acquisition.

### Approvals for 'PSAwatch'

PSAwatch, the group's new quantitative hand-held point-of-care diagnostic testing machine for prostate diseases, was launched at a meeting in Berlin, in late March, of the European Association of Urologists. The product has already secured CE approvals for the EU, with FDA approval (USA) targeted for summer 2007.

### Japanese distribution agreement

Mediwatch has signed a three year Japanese distribution agreement with MC Medical, a division of Mitsubishi. MC will represent the group, supplying its entire product range and supported by a locally based repair and service operation.

### Valuation: Potential yet to be recognised

The share price has edged higher in recent months as the potential has become better understood. It is too early to make confident share price predictions, but if medium term objectives can be delivered, the shares look distinctly undervalued.

Price 12.5p  
Market Cap £16m

#### Share price graph



#### Share details

Code MDW  
Listing AIM  
Sector Healthcare  
Shares in issue 126.9m

#### Price

52 week High 13.8p Low 7.4p

#### Balance Sheet as at 31 Oct 2006

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. It has recently materially extended the product range and established a key presence in the US.

#### Valuation

	2006	2007e	2008e
P/E relative	N/A	969%	123%
P/CF	N/A	N/A	22.2
EV/Sales	4.1	2.2	1.5
ROE	N/A	3%	24%

#### Revenues on geography

UK	Europe	US	Other
N/A	N/A	N/A	N/A

#### Analyst

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**Exhibit 1: Financial summary**

30th April to 2005; then 31 October	£'000s	2005	2006	2007e	2008e
Accounting basis		UK GAAP	UK GAAP	UK GAAP	UK GAAP
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		<b>1,768</b>	<b>2,651</b>	<b>7,500</b>	<b>11,000</b>
Cost of Sales		(1,046)	(1,660)	(4,400)	(5,850)
Gross Profit		722	991	3,100	5,150
<b>EBITDA</b>		<b>(677)</b>	<b>(838)</b>	<b>289</b>	<b>1,241</b>
<b>Operating Profit (before GW and except.)</b>		<b>(713)</b>	<b>(896)</b>	<b>197</b>	<b>1,147</b>
Goodwill Amortisation		(347)	(521)	(347)	(347)
Exceptionals		0	0	0	0
Other		0	0	0	0
<b>Operating Profit</b>		<b>(1,060)</b>	<b>(1,417)</b>	<b>(150)</b>	<b>800</b>
Net Interest		4	(56)	(66)	(63)
<b>Profit Before Tax (norm)</b>		<b>(709)</b>	<b>(952)</b>	<b>131</b>	<b>1,084</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(1,056)</b>	<b>(1,473)</b>	<b>(216)</b>	<b>737</b>
Tax		0	0	0	0
<b>Profit After Tax (norm)</b>		<b>(709)</b>	<b>(952)</b>	<b>131</b>	<b>1,084</b>
<b>Profit After Tax (FRS3)</b>		<b>(1,056)</b>	<b>(1,473)</b>	<b>(216)</b>	<b>737</b>
Average Number of Shares Outstanding (m)		89.9	95.9	126.9	126.9
<b>EPS - normalised (p)</b>		<b>(0.79)</b>	<b>(0.99)</b>	<b>0.10</b>	<b>0.85</b>
<b>EPS - FRS 3 (p)</b>		<b>(1.17)</b>	<b>(1.54)</b>	<b>(0.17)</b>	<b>0.58</b>
Gross Margin (%)		40.8%	37.4%	41.3%	46.8%
EBITDA Margin (%)		(38.3%)	(31.6%)	3.9%	11.3%
Operating Margin (before GW and except.) (%)		(40.3%)	(33.8%)	2.6%	10.4%

**BALANCE SHEET**

<b>Fixed Assets</b>	<b>2,955</b>	<b>2,484</b>	<b>2,226</b>	<b>1,846</b>
Intangible Assets	2,777	2,256	1,909	1,562
Tangible Assets	178	228	317	284
Investment in associates	0	0	0	0
<b>Current Assets</b>	<b>702</b>	<b>2,349</b>	<b>4,108</b>	<b>4,428</b>
Stocks	177	243	1,388	1,634
Debtors	346	851	2,720	2,794
Cash	179	1,255	0	0
<b>Current Liabilities</b>	<b>(582)</b>	<b>(682)</b>	<b>(2,396)</b>	<b>(1,654)</b>
Creditors	(567)	(616)	(1,579)	(1,374)
Short term borrowings	(15)	(66)	(817)	(280)
<b>Long Term Liabilities</b>	<b>(235)</b>	<b>(152)</b>	<b>(154)</b>	<b>(99)</b>
Long term borrowings	(235)	(152)	(154)	(99)
Other long term liabilities	0	0	0	0
<b>Net Assets</b>	<b>2,840</b>	<b>3,999</b>	<b>3,784</b>	<b>4,521</b>

**CASH FLOW**

<b>Operating Cash Flow</b>	<b>(718)</b>	<b>(1,360)</b>	<b>(1,762)</b>	<b>716</b>
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
<b>Net Cash Flow</b>	<b>(134)</b>	<b>1,120</b>	<b>(2,009)</b>	<b>592</b>
<b>Opening net debt/(cash)</b>	<b>(63)</b>	<b>71</b>	<b>(1,037)</b>	<b>971</b>
HP finance leases initiated	0	(12)	0	0
Other	0	0	0	0
<b>Closing net debt/(cash)</b>	<b>71</b>	<b>(1,037)</b>	<b>972</b>	<b>379</b>

Source: Company accounts, Edison Investment Research

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