

2 December 2015

# Ellex Medical Lasers (ELX)

Leader in eye disease treatment adds differentiated devices

Paul Jenz  
pjensz@pacpartners.com.au  
+61 3 8633 9864

### Key Points

- ELX has 30 years of experience in development and manufacture of eye-related diagnostic and treatment devices for global markets.
- ELX has carved out a solid 13% market share across all laser eye treatment through supplying about 1000 units per annum of new laser treatment devices.
- Over the last 3 years, ELX has achieved CAGR 14% growth in sales, compared with industry growth rate of 4.5%.
- New differentiated ELX devices for mid-late stage glaucoma and eye retina rejuvenation treat difficult and underserved needs. They underpin significant ELX growth.

### 2 step strategy – core laser treatment & differentiated devices

#### ELX's sustainable cash flow growth strategy includes:

**Multiple Shots on Goal.** ELX introduced its first laser treatment of eye in 1985. ELX has evolved from a premium research scientific laser company into a global leader in development and manufacturer of medical devices for the treatment of eye disease. There are now 25,000 "Ellex" laser and ultrasound systems in 100 countries.

**Advantage over gold standard.** ELX has carved out a solid 13%+ global market share in current global eye laser market with service across all six laser treatments; continuous R&D investment; vertical integration; and proven distribution and service.

**Next Phases of growth.** ELX acquired the patented and FDA-approved eye lens tube unblocker (iTrack™) on 31 December 2013. This opened up the door to simple additional treatments for glaucoma and cataract surgery. The combined market is expected to be US\$700m by 2020.

Internally developed eye retina rejuvenation (2RT™), is a first-to-market device for intervention in early stage disease associated with ageing patients. This non-thermal laser therapy is able to improve retinal function, and slow the degenerative process that causes poor eyesight. ELX has obtained CE Mark approval, and has sold multiple units to leading eye surgeons.

**View:** We initiate with a Buy recommendation with price target of \$1.00/share which is on an 82% premium to share price. ELX's price target is at a 15% discount to DCF of \$1.18/share due to low share trading liquidity. We note ELX's PER is relatively high vs. EV/EBITDA because ELX writes off research expense each year.

#### Milestones:

**FY16** – Roll out eye lens tube unblocker, iTrack™. (\$7m '16F sales)

**FY16 & FY17** - Positive growth in group sales after terminating \$5m contract manufacturing, and focus on differentiated ELX products.

**FY16- FY18** – Clinical trials assist eye retina take up, 2RT™

#### Risks:

- Delay in iTrack™ commercial roll-out
- Lower take up rate of 2RT than expected
- Working capital/distribution needed to fund capacity upgrades
- FX fluctuations – ELX prefers weaker Australian dollar

**Disclaimer:** PAC Partners will be paid a fee by the ASX under the ASX Equity Research Scheme for this research. Please refer to full disclaimer information on page 10.

### Recommendation

**Buy**

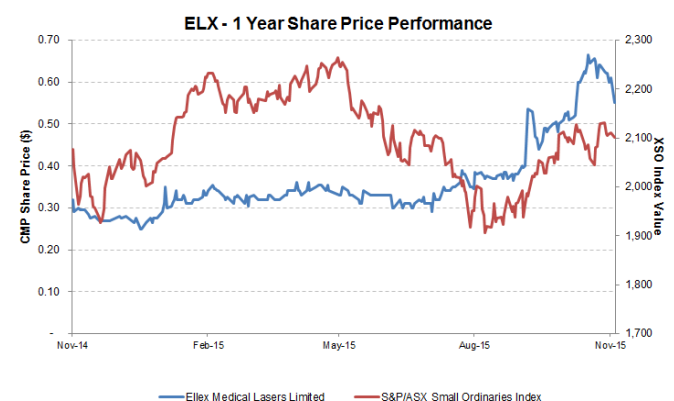
Previous Recommendation	Initiation Report
Risk Rating	Medium
Current Share Price	\$0.55
12 Month Price Target	\$1.00/share
Price Target Methodology	DCF, FY16F EV/EBITDA 10.7x
Total Return (Cap + Yield)	82%
DCF Valuation	\$1.18
Market Capitalisation	\$59m
Liquidity – Daily Value	\$0.01m

### Financial Forecasts & Valuation Metrics

Y/e (\$m)	FY15A	FY16F	FY17F	FY18F
Revenue	62.7	69.3	77.8	88.7
EBITDA	5.6	7.5	8.5	10.2
NPAT	1.7	2.8	3.4	4.4
EPS (cps)	1.6	2.6	3.2	4.1
EPS Growth	116%	66%	22%	27%
DPS (c)	0.0	0.0	0.8	1.0
EV / EBITDA (x)	8.1	6.0	5.2	4.4
PER (x)	34.8	21.0	17.2	13.5
Dividend Yield	0.0%	0.0%	1.5%	1.8%
Cash Balance	4.6	6.0	7.3	8.3

Source: PAC Partners estimates

### Share Price Performance



Source: S&P Capital IQ

## Table of Contents

Summary Swot .....	2
Board and Executives.....	2
<b>Company overview and Risks .....</b>	<b>3</b>
<b>Glaucoma treatment (SLT).....</b>	<b>5</b>
<b>Eye lens tube unblocker - iTrack™ .....</b>	<b>6</b>
<b>Global Peer Review .....</b>	<b>7</b>
Contact Information .....	10
Recommendation Criteria.....	10

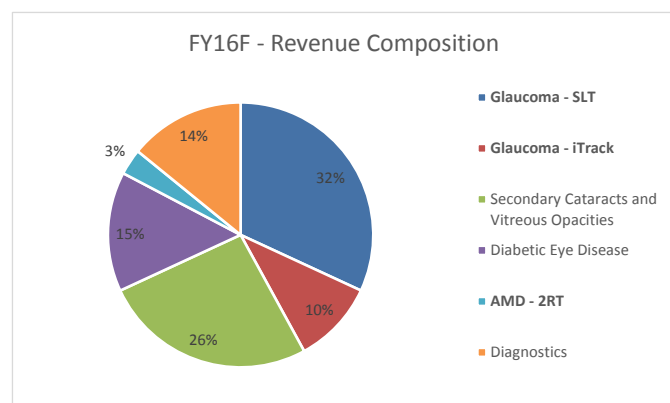
### Summary Swot

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Fully vertical integrated from R&amp;D to sales and servicing</li> <li>Capability of manufacturing large volumes to international standards</li> <li>Diversified products and services across eye-related laser industry</li> </ul>	<ul style="list-style-type: none"> <li>Revenue relies heavily on export markets.</li> <li>High marketing spend and working capital commitments</li> <li>Low share trading volume (opens up discount to larger peers)</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Developing world’s aging population boosts corrective eye surgery</li> <li>Increasing penetration of basic glaucoma/cataract treatment</li> <li>Increasing China demand follow Free Trade Agreement</li> </ul>	<ul style="list-style-type: none"> <li>Competition from pharmaceutical competitors with vested interests</li> <li>Delays in regulatory approvals for new indications</li> <li>Volatility in Australian exchange rate</li> </ul>

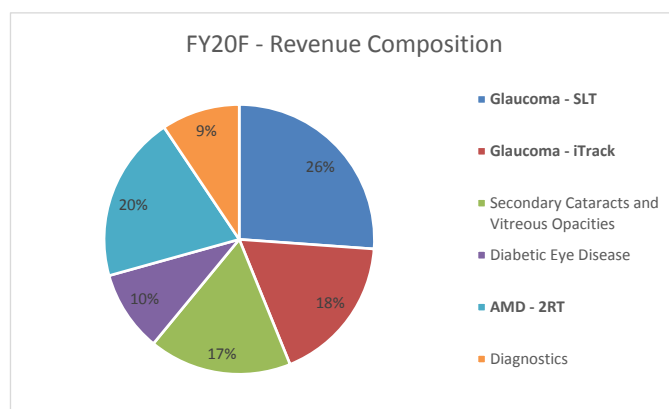
### Board and Executives

Directors	Comment
<ul style="list-style-type: none"> <li>Victor Previn – Executive Chairman/Founder</li> <li>Alex Sundich – Non-executive Director</li> <li>Giuseppe Canala – Non-executive Director</li> <li>Meera Verma - Non-executive Director</li> <li>Rahmon Coupe - Non-executive Director</li> <li>Thomas Spurling– CEO</li> </ul>	<ul style="list-style-type: none"> <li>8.7% shareholder. Founder in 1990’s</li> <li>6.3% shareholder, ex-investment banker and joined board in 2005.</li> <li>4.1% shareholder, ex-company secretary and joined board in 2008.</li> <li>Global healthcare professional, joined board in 2013</li> <li>1% shareholder, industrial/IT/IP professional and joined board in 2013.</li> <li>0.5% shareholder, joined in March 2011, financial professional</li> </ul>

### Revenue transition from FY’16F to FY’20F – More differentiated devices



Source: PAC Partners estimates



Source: PAC Partners estimates

## Company Overview and Risks

**Vision:** Global ophthalmic laser device leader for treatment of eye disease

**Progress:**

30 years of history and experience in the Laser field...

...until 2015 supplying ~1000/annum new laser treatment devices

Over the last 3 years, ELX has achieved CAGR 14% growth in sales, compared with industry growth rate of 4.5%.

New differentiated therapies for difficult and underserved needs:

- iTrack™ ocular outflow of fluid from eye lens for middle to late-stage glaucoma; and,  
- "2RT" retinal rejuvenation

They underpin significant ELX growth

In 1985, ELX, originally called Quentron Electronics, was awarded a government grant to develop laser technology for use in ophthalmology.

During 1999 – 2006, ELX had entered two Original Equipment Manufacturer (OEM) agreements with Lumenis (a Global Ophthalmology Giant) to manufacture laser treatment products for Ophthalmology.

ELX listed on the ASX in 2001, and launched proprietary Selective Laser Trabeculoplasty (SLT) platform in 2005 for the treatment of glaucoma.

In 2006, ELX expanded into the Ultrasound Diagnostic market by acquiring US-based Imaging, Inc.

Further expands its glaucoma product portfolio via acquisition of US-based iScience Interventonal, Inc.

Launches 2RT® pilot study in partnership with Centre for Eye Research Australia (CERA)

To date, ELX has more than 25,000 laser and ultrasound systems in operation across more than 100 countries to assist in diagnosis and treatment of blindness and visual impairment.

**Risks:**

- *Delay in iTrack™ commercial roll-out.* ELX has had significant success with early adopters and at recent conferences. However, ophthalmologists have a set procedure for glaucoma and cataract surgery and billing system. iTrack™ involves minor changes for a significant ongoing benefit to patient, and can be reimbursed. ELX just has to get the value uplift message to patients, families and ophthalmologists.
- *Lower take up rate than expected after key Clinical Trial ("LEAD") with 2RT.* In a similar vein to iTrack™, ELX needs to move from early adopters to the broader market for retinal eye disease treatment. ELX can treat very early stage of Aged Macular Degenerated retinal disease which has not been treatable to date. Retinal disease can only be slowed by improved diet. Late stage disease is treated with regular injected drugs local anaesthetic. ELX requires patients or their families to demand an alternative treatment. Early adopting ophthalmologists will be enhanced by their own papers at conferences and the large independent clinical trials (like 2015-2018 LEAD).
- *Working capital/distribution needed to fund capacity upgrades.* Adelaide's site is well equipped to keep device manufacturing at the higher 2016 rate, and ELX is trying to gear up for steady device growth and increased global service needs. If ELX grows faster, then ELX would need to tool up to another level.
- FX fluctuations – ELX prefers weaker Australian dollar

**View**

Buy with PT \$1.00/share

We initiate with a Buy recommendation with price target of \$1.00/share due to 82% premium to share price.

15% EPS growth in short term comes from well proven eye laser surgery devices and services.

We believe ELX will secure modest 3% market share of disease treatment in differentiated laser devices (eye lens unblocking for glaucoma/cataract with iTrack™, and eye retina treatment with 2RT™). A blend of both steps lift ELX's average EPS growth above 20%pa.

Chart: ELX share price vs. Peers and ASX200

ELX has outperformed the ASX200

Notwithstanding, we think it is undervalued, comparing to most peers

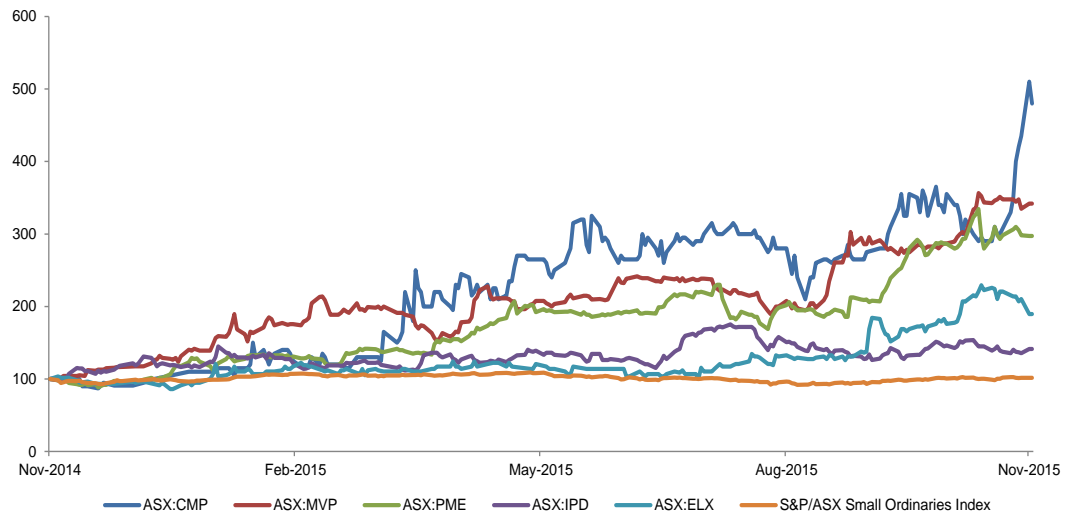
**CMP** – Specialising in sleep and brain blood flow monitoring devices. Commercialisation of eHealth in progress.

**MVP** – Pentrox supplier, formed alliance with Mundipharma to launch commercialisation in EU.

**PME** – Major contracts won in the US for its 3D PACS technologies with minimum guaranteed.

**IPD** – received CPT code of US\$112.67 for L-Dex procedure for the assessment of lymphoedema.

Indexed Shares Price Performance - Last 12 Months



Source: S&P CapitalIQ

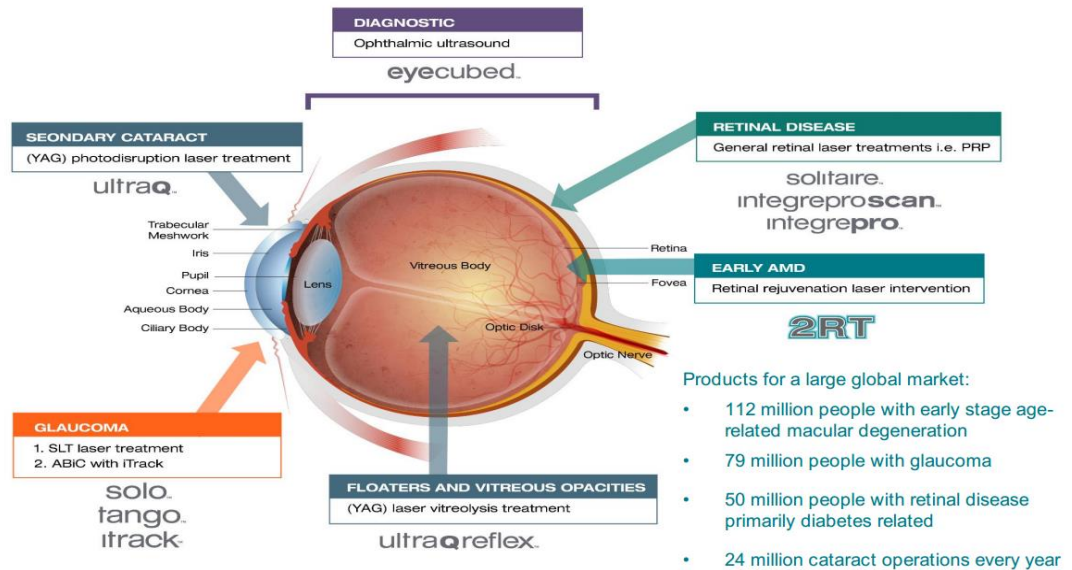
ELX's Six Area of Expertise.

Source: ELX

ELX has all laser treatments of the eye covered...

...and is now adding adjunct mechanical treatments such as iTrack™ / canaloplasty

ELLEX – OPHTHALMIC PRODUCTS



Glossary:

**Glaucoma** – blurring/loss of vision due to increased intraocular pressure and optic nerve damage.

**Age-related macular degeneration (AMD)** – a chronic eye disease that can result in blurred vision and/or a loss of central vision

**Cataract** – a clouding of the lens in the eye leading to a decrease in vision

**Canaloplasty** – a minimally-invasive surgical technique used for the treatment of blocked tubes which flush eye lens

**Retinal Disease** – partial/total loss of vision from damage to retina caused by macular degeneration or the presence of other disease, i.e. diabetes.

**Floaters and Vitreous Opacities** – visual disturbance in eye ball with symptoms of sudden appearance of multiple gel-like fluid. Dark appearing floaters may be an indication of a more serious condition.

**YAG** – a special type of laser treatment commonly used in ophthalmology for assisting cataract surgery.

**MIGS** – Minimally Invasive Glaucoma Surgery device

**BAGS** – Blebless Ab Externo glaucoma Surgery device

# Glaucoma treatment (SLT)

## Selective Laser Trabeculoplasty (SLT)

SLT treats glaucoma as effectively as medication...

...without need for ongoing treatment

ELX has two proprietary products...

...i.e. Tango™ and Solo™

SLT is a quick and non-thermal laser therapy for the treatment of glaucoma. It works by stimulating a natural healing response in the eye to lower intraocular pressure (IOP). The treatment is as effective as eye-drop medication but is a long term solution. SLT is also suitable for every stage of the glaucoma treatment process.

### ELX facilitates SLT as primary therapy for glaucoma

Ellex launched proprietary Selective Laser Trabeculoplasty (SLT) platform in 2005. To date, there are more than 3000 systems, manufactured by ELX, are in use globally. In addition, ELX is one of only two ophthalmic companies that possess the necessary technical expertise to manufacture dual-mode SLT/YAG laser technology.

ELX offers two products with leading technologies:

- Solo™, equipped with proprietary cavity, which enables delivery of the industry's fastest SLT firing rate at 3 shots per second.
- Tango™, featuring a proprietary, patented dual-mode laser activity, which allows ophthalmologist to perform SLT and YAG treatments with an easy switch of a button.



Source: ELX website



Source: ELX website

### Geographical expansion of the core business

Global SLT penetration rate improving with ELX...

...and China is just opening up and being serviced

The SLT penetration rate is still low in comparison to pharmaceutical therapies, currently ~3% of the total annual spend on glaucoma treatment.

ELX plans to increase global acceptance of SLT as primary therapy for glaucoma via following initiatives:

- Increase spend on marketing, doctor training and education.
- Facilitate product registration processes, and meeting relevant legal requirements in Asia region.
- Expand geographic reach, particularly in China, employ additional staff resources.

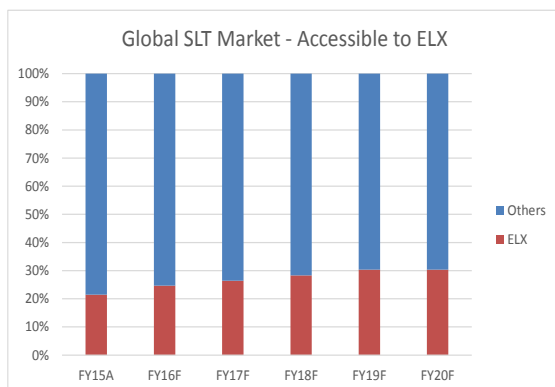
### Accessible Market to ELX

The SLT market for ELX is expected to grow at least CAGR 4.5%pa to US\$75m over the next five years, we assume ELX builds on its 21% global market share with 10% growth because of its ease of use and accurate, quick surgery.

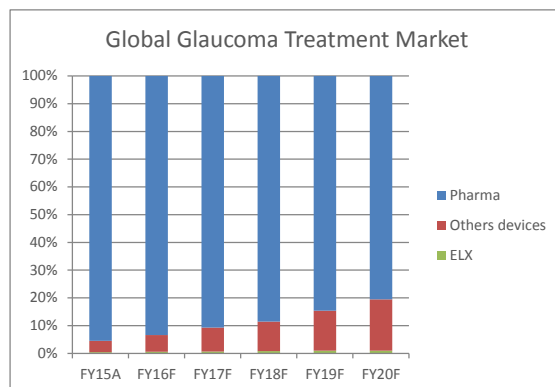
We assume ELX is able to obtain ~30% of the global SLT market...

...with 10%pa growth from maintain market share in existing markets and growing into new geographies

There is still a huge pharma market for ELX to tackle later



Source: MarketScope LLC Reports and PAC estimates



Source: MarketScope LLC Reports and PAC estimates

# Eye lens tube unblocker - iTrack™

## Challenging the gold standard performance

ELX acquired iScience in 2013

ELX acquired the patented and FDA-approved iTrack™ Canaloplasty Microcatheter on 31 December 2013 from iScience Interventional. The microcatheter is able to help surgeons to perform canaloplasty more effectively. Prior to the acquisition, iScience has spent ~US\$50m in the R&D of the technology.

It had leading canaloplasty, and ...

ELX's Ab Interno Canaloplasty (ABiC™) challenges the existing gold standard (Ab Externo Canaloplasty) by not only maintaining clinical effectiveness, but also can be used as adjunct to cataract surgery. Canaloplasty opens up flushing tubes for eye lens and prevents blockages that impair sight after surgery.

...ELX has adjunct route to market...

ELX has opened the door to simpler adjunct treatments for glaucoma and cataract surgery. The combined market is expected to be ~US\$700m by 2020 (see below)

## ABiC™s VS Traditional Gold Standard - Ref: ELX

...with improved usability and efficacy to peers

	ABiC™ (with iTrack™)	iStent™ (1)	XEN45 (2)
Treatment time	5-10 minutes	5-10 minutes	20-30 minutes
Address all areas of potential blockage	YES		
FDA Approval	YES	YES	Late FY'16
CE Marks	YES	YES	YES
Insurance reimbursements	YES	YES	
Adjunct to Cataract	YES		

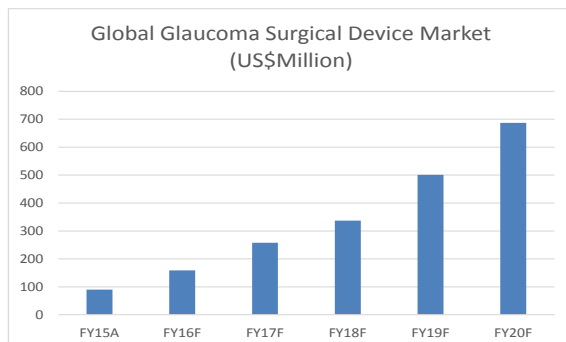
(1) Flagship product from NYSE listed peer Glaukos, currently generating ~US\$70m per annum. (2) A minimally invasive implantable shunt acquired by Allergan at US\$300m in September 2015.

## Significant growth opportunities

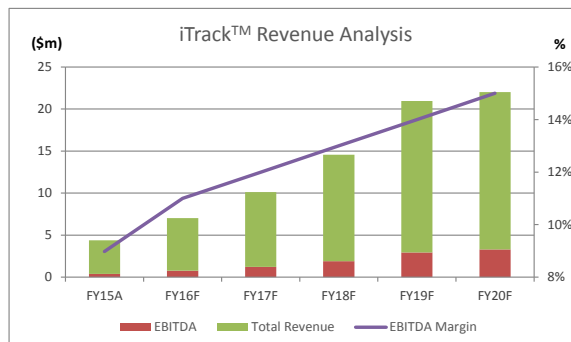
We assume 3% market share...

ELX targets 5%~6% market shares of the global market, we assume a modest 3%, and expect iTrack™ to generate \$22m revenue and \$3.3m EBITDA by FY2020.

...vs ELX medium term target of 5 to 6%



Source: MarketScope LLC Reports



Source: PAC Partners estimates

## Synergy Effect with SLT

Multiple reimbursements give efficient patient and surgeon solution

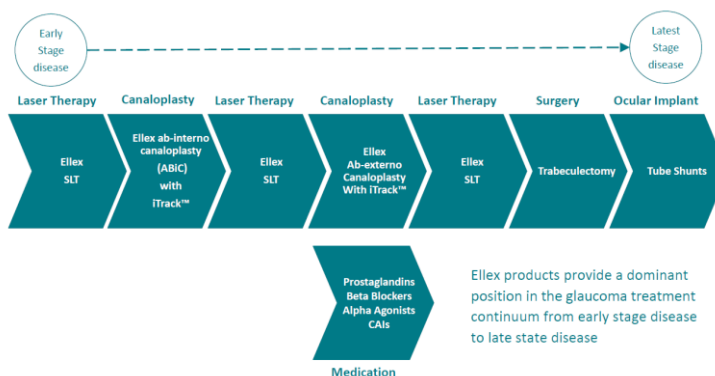
ELX's proprietary products – SLT and iTrack™, together provides complete early to late solutions to glaucoma treatment. (see diagram below)

We believe the synergy effect across products will help build up brand recognition from ophthalmologists. Yet the effect is not incorporated in our relatively low market share of just 3%.

SLT with iTrack can provide synergy effect...

...across the whole glaucoma treatment

## Ellex and Glaucoma treatment



Source: ELX Investor Presentation FY15 Results

## Global Peer Review

### Listed and unlisted peers are evolving

There are 10 global eye surgery equipment and consumable suppliers who are listed, or were listed until acquired in 2015 – see below. We make a few observations:

ELX traded at a substantial EV/sales discount...and

...margin is higher than most peers

ELX's differentiation should drive higher multiple

- ELX trades at a substantial discount to peer Enterprise Value/Sales (1.1x to 3.0x), and is particularly lower vs. iTrack's nearest mechanical device competitor (Glaukos @ 11.6x) and implantable lens' supplier (STAAR @ 4.5x)
- ELX has a superior EBITDA margin to all but three peers (Carl Zeiss, Huvitz, Crystalvue). Four peers were still making negative EBITDA until June 2015.
- M&A activity is heightened in eye surgery and clinic market with both investors (Jangho Group) and pharmaceutical companies participating. Perhaps showing that both see low cost and novel corrective surgery coming from mechanical field (vs the dominance of pharmaceutical until recently)
- *ELX has a significant opportunity to stand on the global stage with 3+x EV/Rev (Mcap \$150m+) when its differentiated eye surgery products show significant growth (like that expected with Glaukos and others)*

### ELX medtech peers - June 2015 Revenue and EBITDA (US\$m)

Similar sales US\$50m to \$100m...

...but widely different multiples

Company Name	Market Cap	Ent. Value	Revenue	EBITDA	EBITDA%	EV/Rev	EV/EBITDA
IRIDEX Corporation (NasdaqGM:IRX)	98	88	41	1.3	3.2%	2.1	67.5
STAAR Surgical Company (NasdaqGM:STAA)	338	327	73	(6.7)	-9.2%	4.5	
Quantel (ENXTPA:QUA)	25	41	55	(0.7)	-1.3%	0.7	
Carl Zeiss Meditec AG (XTRA:AFX)	2,301	2,348	1,043	142.6	13.7%	2.3	16.5
Glaukos Corporation (NYSE:GKOS)	843	762	66	(9.0)	-13.7%	11.6	
Huvitz Co. Ltd. (KOSDAQ:A065510)	148	163	61	10.8	17.9%	2.7	15.1
Crystalvue Medical Corporation (GTSM:6527)	28	20	13	1.7	13.1%	1.5	11.6
Escalon Medical Corp. (NasdaqCM:ESMC)	9	8	13	(0.9)	-6.8%	0.6	
Ellex Medical Lasers Limited (ASX:ELX)	47	49	45	2.8	6.2%	1.1	17.4
<b>Average</b>						<b>3.0</b>	<b>25.6</b>

ELX's vertical integration places it in top tier of peers

Company Name	Descriptions
IRIDEX Corporation (NasdaqGM:IRX)	Medical laser systems for the treatment of the sight-threatening eye diseases.
STAAR Surgical Company (NasdaqGM:STAA)	Implantable lenses for the eye, and delivery systems to deliver lenses into the eye.
Quantel (ENXTPA:QUA)	Laser systems for scientific, military, industrial, and medical applications worldwide.
Carl Zeiss Meditec AG (XTRA:AFX)	Medical technology company worldwide in the fields of ophthalmology and other fields.
Glaukos Corporation (NYSE:GKOS)	Products and procedures designed for the treatment of glaucoma ("iStent").
Huvitz Co. Ltd. (KOSDAQ:A065510)	Ophthalmic and optical equipment comprising refractive equipment.
Crystalvue Medical Corporation (GTSM:6527)	Ophthalmic related devices. "FundusVue" & "MicroVue" diagnostic and camera.
Escalon Medical Corp. (NasdaqCM:ESMC)	Ophthalmic medical devices and pharmaceuticals. A-Scans & B-Scans diagnostic tools.

Source: CapIQ

### ELX medtech peers – Recently acquired

Three significant deals in last six months...

...shows laser eye surgery is in focus

Date	Target	Buyer	EV	EV/Revenue	EV/EBITDA	Description target	Description buyer
Oct-15	Synergetics	Valeant Pharma	US\$197m	3.0x	13.1x	Laser and disposable device eye surgery equipment	Specialty pharma and consumer including Bausch & Lomb eyewear - US\$30bn Mcap - VRX.N
Aug-15	Vision Eye Institute	Jangho Group	A\$203m	1.8x	7.6x	33 eye clinics across East Coast Australia	Chinese industrial and R&D company - US\$2.5bn Mcap - SHSE.601886
Jun-15	Lumenis	XIO Group	US\$556m	1.5x	15.3x	#1 Laser surgery supplier in USA plus global distribution	HK investment firm

Source: CapIQ and company websites

## Back Page Summary

# Ellex Medical Lasers

NFPOS 108 m

Price \$ 0.55  
Market Cap \$59 m

### PROFIT & LOSS (\$m)

Y/end	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
<b>Revenue</b>	<b>42.8</b>	<b>54.4</b>	<b>62.7</b>	<b>69.3</b>	<b>77.8</b>	<b>88.7</b>	<b>107.7</b>	<b>124.1</b>
EBITDA	1.7	3.0	5.6	7.5	8.5	10.2	15.6	18.8
Depreciation & Amortisation	1.3	1.4	2.5	3.1	3.1	3.4	3.6	3.7
<b>EBIT</b>	<b>0.4</b>	<b>1.6</b>	<b>3.1</b>	<b>4.4</b>	<b>5.4</b>	<b>6.8</b>	<b>12.0</b>	<b>15.1</b>
Net Interest	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.7	-0.8
<b>PBT</b>	<b>0.1</b>	<b>1.3</b>	<b>2.7</b>	<b>4.0</b>	<b>4.9</b>	<b>6.2</b>	<b>11.4</b>	<b>14.3</b>
Income tax	-1.0	-0.5	-1.0	-1.2	-1.5	-1.9	-3.4	-4.3
<b>NPAT underlying</b>	<b>-0.8</b>	<b>0.8</b>	<b>1.7</b>	<b>2.8</b>	<b>3.4</b>	<b>4.4</b>	<b>8.0</b>	<b>10.0</b>
Equity Accounting Profits	-0.8	0.8	2.0	2.8	3.4	4.4	8.0	10.0
Less non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>NPAT underlying - attributed to shareholders</b>	<b>-0.8</b>	<b>0.8</b>	<b>1.7</b>	<b>2.8</b>	<b>3.4</b>	<b>4.4</b>	<b>8.0</b>	<b>10.0</b>
Abnormal items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT Reported.	-0.8	0.8	1.7	2.8	3.4	4.4	8.0	10.0

### BALANCE SHEET (\$m)

Y/end	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	0.8	1.8	4.6	6.0	7.3	8.3	10.0	14.5
PP&E	2.5	3.1	3.6	5.4	7.3	9.5	12.4	15.8
Debtors & Inventory	23.8	26.0	27.8	32.2	35.0	40.0	48.4	54.2
Intangibles	0.8	3.8	4.4	4.6	4.8	5.1	5.3	5.6
Other assets	19.4	19.6	18.5	17.0	16.1	14.8	14.2	14.8
<b>Total Assets</b>	<b>47.3</b>	<b>54.2</b>	<b>59.0</b>	<b>65.1</b>	<b>70.4</b>	<b>77.6</b>	<b>90.2</b>	<b>104.9</b>
Borrowings	7.3	5.7	6.8	8.8	10.3	12.5	15.8	18.9
Trade Creditors	6.5	5.9	6.4	7.5	8.1	9.3	11.3	13.0
Other Liabilities	2.7	5.6	6.0	6.1	7.1	8.0	9.7	11.2
<b>Total Liabilities</b>	<b>16.5</b>	<b>17.3</b>	<b>19.2</b>	<b>22.4</b>	<b>25.5</b>	<b>29.9</b>	<b>36.8</b>	<b>43.1</b>
<b>NET ASSETS</b>	<b>30.8</b>	<b>37.0</b>	<b>39.8</b>	<b>42.7</b>	<b>44.9</b>	<b>47.7</b>	<b>53.4</b>	<b>61.8</b>
<b>ISSUE CAPITAL</b>	<b>35.2</b>	<b>41.2</b>	<b>41.2</b>	<b>41.2</b>	<b>41.2</b>	<b>41.2</b>	<b>41.2</b>	<b>41.2</b>

Y/end	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
<b>Operating EBITDA</b>	<b>1.7</b>	<b>3.0</b>	<b>5.6</b>	<b>7.5</b>	<b>8.5</b>	<b>10.2</b>	<b>15.6</b>	<b>18.8</b>
Interest & Tax	(1.2)	(0.8)	(1.4)	(1.8)	(2.1)	(2.7)	(4.4)	(5.5)
Working Cap.	7.6	(3.7)	0.2	(1.7)	(1.2)	(2.1)	(3.4)	(1.7)
<b>Operating CF</b>	<b>8.1</b>	<b>(1.5)</b>	<b>4.4</b>	<b>4.1</b>	<b>5.1</b>	<b>5.4</b>	<b>7.8</b>	<b>11.7</b>
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expansion Capex	(2.3)	(2.1)	(2.2)	(2.7)	(2.9)	(3.4)	(4.1)	(4.7)
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free Cashflow (FCF)</b>	<b>5.8</b>	<b>(3.6)</b>	<b>2.2</b>	<b>1.4</b>	<b>2.2</b>	<b>2.1</b>	<b>3.7</b>	<b>7.0</b>
Ord Dividends	0.0	0.0	0.0	0.0	(0.9)	(1.1)	(2.0)	(2.5)
Equity, (Debt Paydown)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Cashflow</b>	<b>5.8</b>	<b>(3.6)</b>	<b>2.2</b>	<b>1.4</b>	<b>1.3</b>	<b>1.0</b>	<b>1.7</b>	<b>4.5</b>

### DIRECTORS

	Shares (m)		Shares (m)
Victor Previn	9.3	Tom Spurling	0.5
Alex Sundich	6.3		
Giuseppe Canala	4.1		
Rahmon Coupe	1.0		
Meera Verma	0.0	<b>Total</b>	<b>21.2</b>

### EXECUTIVES

### MAJOR SHAREHOLDERS

	%
National Nominees Limited	12.5%
Sedico Pty Ltd	8.7%
Pine Street Pty Ltd ATF	5.9%
<b>Top 20</b>	<b>49%</b>

### DIVISIONAL SUMMARY (A\$m)

Contract Manufacturing was terminated on 30 June 2015

Y/end	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
<b>Revenue</b>								
Glaucoma - SLT	15.8	16.3	18.4	22.1	24.7	27.7	31.0	32.4
Glaucoma - iTrack	0.0	3.8	4.4	7.0	10.1	14.6	21.0	22.0
Secondary Cataracts and Vitreous Opacities	10.7	13.6	16.4	18.0	18.9	19.7	20.6	21.2
Diabetic Eye Disease	5.6	7.1	8.8	10.1	10.6	11.1	11.5	12.1
AMD - 2RT	0.0	0.0	1.1	2.2	3.3	5.0	12.4	24.8
Diagnostics	5.6	7.1	8.5	9.8	10.2	10.7	11.2	11.7
Contract Manufacturing and Other	5.1	6.5	5.1	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>42.8</b>	<b>54.4</b>	<b>62.7</b>	<b>69.3</b>	<b>77.8</b>	<b>88.7</b>	<b>107.7</b>	<b>124.1</b>
<b>Total EBITDA</b>	<b>1.7</b>	<b>3.0</b>	<b>5.6</b>	<b>7.5</b>	<b>8.5</b>	<b>10.2</b>	<b>15.6</b>	<b>18.8</b>



## Ellex Medical Lasers

Date: 1-Dec-15  
Model Updated: 1-Dec-15

Y/end	KEY RATIOS							
	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EBITDA Margin (%)	4.0%	5.5%	9.0%	10.9%	10.9%	11.5%	14.5%	15.2%
NPAT Margin (%)	-1.9%	1.4%	2.7%	4.1%	4.4%	4.9%	7.4%	8.1%
ROE (%) y/e	-2.6%	2.1%	4.3%	6.6%	7.7%	9.2%	14.9%	16.2%
ROI (%) y/e	1.1%	3.8%	7.4%	9.6%	11.2%	13.0%	20.4%	22.8%
NTA per share (\$)	0.43	0.47	0.51	0.56	0.61	0.67	0.79	0.92
Eff Tax Rate (%)	-682.9%	-39.9%	-35.9%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
Interest Cover (x)	1.5	6.2	7.0	12.1	12.4	13.3	18.2	18.6
Net Gearing (%)	18.6%	9.6%	5.2%	7.0%	7.3%	10.4%	14.1%	10.7%

Y/end	VALUATION PARAMETERS							
	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EPS Adj (cps)	-1.0	0.7	1.6	2.6	3.2	4.1	7.4	9.3
PE Adj (x)	-57.2	75.1	34.8	21.0	17.2	13.5	7.4	5.9
Enterprise Value (\$m)	65.8	63.2	61.4	62.1	62.2	63.5	65.0	63.6
EV / EBITDA (x)	72.3	16.7	8.1	6.0	5.2	4.4	2.8	2.2
EV / EBIT (x)	-164.8	26.9	12.1	8.6	7.1	5.7	3.2	2.5
Price / NTA	1.3	1.2	1.1	1.0	0.9	0.8	0.7	0.6
DPS (cps)	0.0	0.0	0.0	0.0	0.8	1.0	1.9	2.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	1.5%	1.8%	3.4%	4.2%
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%
Free Cash / Share (c)	5.3	-3.3	2.0	1.3	2.0	1.9	3.5	6.5
Price / FCF PS (x)	10.3	-16.6	27.1	43.3	27.1	28.5	15.9	8.5

DCF VALUATION & ASSUMPTIONS			
PV of Cashflows 2016 to 2024	38	Risk Free Rate	4.0%
		Equity Risk Premium	8.5%
PV of Term Year Cashflow	209	Equity Beta	0.7
		Cost of Equity	10.2%
		After Tax WACC	9.5%
Less OEI at FY'15 y/e	0		
(Net Debt) or Cash	2	Terminal Growth	3.0%
PV of Equity	127		
PV of Equity per share	\$ 1.18		

## SENSITIVITY ANALYSIS

Term. Growth	Term. WACC				
	8.46%	9.46%	10.46%	11.46%	12.46%
2.00%	\$ 1.27	\$ 1.07	\$ 0.92	\$ 0.80	\$ 0.71
2.50%	\$ 1.35	\$ 1.12	\$ 0.96	\$ 0.83	\$ 0.73
3.00%	\$ 1.44	\$ 1.18	\$ 1.00	\$ 0.86	\$ 0.75
3.50%	\$ 1.55	\$ 1.26	\$ 1.05	\$ 0.89	\$ 0.78
4.00%	\$ 1.69	\$ 1.34	\$ 1.11	\$ 0.93	\$ 0.81

## GROWTH PROFILE (YoY)

Y/end	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Sales (\$m)	-10%	27%	15%	10%	12%	14%	21%	15%
EBITDA inc EAT (\$m)	-45%	73%	88%	34%	13%	20%	53%	21%
EBIT (\$m)	-72%	275%	98%	42%	22%	26%	78%	25%
NPAT (\$m)	-178%	-197%	116%	66%	22%	27%	82%	25%
EPS (cps)	-178%	-176%	116%	66%	22%	27%	82%	25%
DPS (cps)	0%	0%	0%	0%	0%	27%	82%	25%

## Contact Information

**Head Office:** Level 12, 15 William St Melbourne VIC 3000 Australia. Tel: +61 3 8633 9831

### PAC Partners – Executive Team

#### CRAIG STRANGER

*Managing Director*  
+613 8633 9832  
[cstranger@pacpartners.com.au](mailto:cstranger@pacpartners.com.au)

#### PAUL JENSZ

*Director, Senior Industrial Analyst*  
+613 8633 9864  
[pjensz@pacpartners.com.au](mailto:pjensz@pacpartners.com.au)

#### ANDREW SHEARER

*Senior Resources Analyst*  
+613 8633 9862  
[ashearer@pacpartners.com.au](mailto:ashearer@pacpartners.com.au)

#### SEAN KENNEDY

*Corporate Finance*  
+613 8633 9836  
[skennedy@pacpartners.com.au](mailto:skennedy@pacpartners.com.au)

#### BROOKE PICKEN

*Equity Capital Markets*  
+613 8633 9831  
[bpicken@pacpartners.com.au](mailto:bpicken@pacpartners.com.au)

### PhillipCapital – Institutional Sales Team

#### JAMES WILSON

*Head of Institutional Dealing*  
+61 2 9233 9607  
[jwilson@phillipcapital.com.au](mailto:jwilson@phillipcapital.com.au)

#### MARK PASHLEY

*Head of Trading*  
+61 2 9233 9641  
[mpashley@phillipcapital.com.au](mailto:mpashley@phillipcapital.com.au)

## Recommendation Criteria

### Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

### Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

### Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Paul Jensz about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

The following person(s) do not hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

- the author of this report
- a member of the immediate family of the author of this report

### Disclaimer

PAC Partners Pty Ltd. ("PAC Partners" or "PAC") is a Corporate Authorised Representative of PAC Asset Management Pty Ltd holder of an Australian Financial Services Licence (AFSL No. 335 374). PAC Partners is a business partner of Phillip Capital Limited ("PhillipCapital") (AFSL 246 827).

**The information contained in this report is provided by PAC Partners to Wholesale Investors only. Retail investor and third party recipients should not rely, directly or indirectly, on this report.** Users of this research report should not act on any content or recommendation without first seeking professional advice. Whilst the report has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by PAC Partners, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. This report is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This publication contains general securities advice. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user. Access of this report does not create a client relationship between PAC Partners and the user. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation. PAC and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. PAC believes that the advice and information herein is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by PAC or any of its directors, employees or agents. Any content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of PAC Partners.

### Disclosure of Corporate Involvement

PAC Partners has in the previous 12 months carried out work on behalf of the Company described in this report and has previously received fees on commercial terms for its services from the Company described in this report. This report was prepared solely by PAC Partners. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by PAC Partners, in accordance with the ASX Equity Research Scheme.

ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

PAC Partners and/or their associates may own securities of the Company described in this report. PAC Partners does and seeks to do business with companies covered in the research. PAC may receive commissions from dealing in securities. As a result, investors should be aware that PAC Partners may have a conflict of interest that could affect the objectivity of this report.