

6 May 2009

Lifeline Scientific

Year End	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/07	6.0	(21.9)	(139.8)	N/A	N/A	N/A
12/08	8.3	(4.6)	(29.2)	N/A	N/A	N/A
12/09e	13.4	1.2	7.3	N/A	8.6	N/A
12/10e	16.1	2.1	13.2	N/A	4.8	N/A

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

Investment summary: Kidney transport device

Lifeline's LifePort device is used to store and transport donor kidneys for transplant and has achieved high adoption in North America during its pilot introduction phase. A landmark clinical study has confirmed its superiority over the traditional cold-storage method. A full evidence-based commercial launch is now underway, anticipating wider use and a higher average selling price of single-use consumables. This should allow Lifeline to gain more market share and reach profitability in 2009.

Stronger sales expected in 2009

LifePort sales increased by 39% in 2008, largely driven by expanded adoption and broader pilot usage. Demand was stronger in Q1, following the publication of key trial data in early 2009. With an installation base of over 300 devices, we forecast total LifePort-related sales to increase by 70% to reach \$12m in 2009.

Key trial results published in NEJM

The first prospective trial comparing LifePort with the traditional ice box preservation method has been published in the *New England Journal of Medicine*. The study showed LifePort can improve organ quality, increase the transplantation success rate and lower the incidence of delayed graft function. This should help LifePort achieve a higher clinical adoption.

Profitability within sight

The combination of clinical evidence and economic benefits makes a strong case for LifePort to become a standard of care for kidney transplantation worldwide. A potential increase in consumables' selling price would help Lifeline reach profitability in 2009. If the trend continues, the company may start to focus on the development of similar transporters for the heart, liver, lungs and pancreas.

Valuation: P/E of 8.6x for 2009

The enterprise value currently stands at £6.2m, and the shares are trading on 8.6x and 4.8x prospective 2009 and 2010 EPS, based mainly on LifePort's sales in North America. Our base-case valuation model suggests a fair value of 119p/share. Other transporters under development could potentially provide further upside in the longer term. Share liquidity should improve once the CREST admission is completed.

Price 42.0p
Market Cap £7m

Share price graph



Share details

Code LSI
Listing AIM
Sector Health Care Equipment & Services
Shares in issue 15.8m

Price

52 week High 145.0p Low 35.5p

Balance Sheet as at 31 December 2008

Debt/Equity (%) N/A
NAV per share (p) 10.4
Net cash (£m) 0.4

Business

Lifeline manufactures and sells preservation and transport devices used in kidney transplantation. Similar devices for other organs are in late stage pre-clinical development.

Valuation

	2008	2009e	2010e
P/E relative	N/A	117%	74%
P/CF	N/A	14.5	4.7
EV/Sales	1.1	0.7	0.4
ROE	N/A	33%	37%

Revenues by geography

North America 92% Rest of the world 8%

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Investment summary: A profitable year ahead

Company description

Lifeline is a medical device company focused on manufacturing storage equipment for organ transplantation use. Its first product, Kidney LifePort, has been in pilot use since late 2004 in over 17,000 transplantation procedures. With a recent key clinical trial confirming its superiority over the traditional organ preservation method, the device is likely to emerge as a clear winner in its niche market and become the standard of care in kidney transplantation. The company is expected to move into profitability in 2009, driven by a full evidence-based launch in North America. In the longer term, a full roll-out into Europe and the rest of the world, and the development of transporters for other organs are the main growth areas.

Valuation

Lifeline shares currently trade at 42p, which is equivalent to 8.6x our 2009 and 4.8x our 2010 net earnings forecasts. In comparison, most London-listed medical device companies are trading on higher earnings multiples. Our base-case valuation model suggests a fair value of 119p/share, only taking into account the company's Kidney LifePort business and assuming a conservative 10% net growth in profits beyond 2010. A five-year discounted cash flow model, with a terminal value based on a 2% long-term growth rate and discounted at 15%, yields a higher valuation figure of around \$40m or 171p/share. Liquidity is expected to improve once the CREST admission is completed.

Sensitivities

In 2009, it is crucial that Lifeline should have positive cash flow without having to resort to further funding. In the short term, the key risk Lifeline faces is under-achieving its sales target. It must generate enough sales to maintain positive cash flow and accumulate adequate working capital for the next-stage expansion. Slower-than-expected sales could occur primarily from: (1) difficulty in moving up pricing; and (2) slow adoption of LifePort in a wider pool of donated kidneys. In addition, a fluctuation of the level of kidney donors would have a direct impact on sales.

On the upside, Kidney LifePort sales in certain European countries could accelerate as early as Q409 to early 2010 if a quick reimbursement approval is achieved. Sales from the rest of the world, eg Brazil, China and Russia, could start to make a significant contribution from 2010 onwards.

Financials

The FY08 results showed an increase of 39% in revenue to \$8.3m and a fall of 84% in reported net loss to \$3.7m. Despite the difficulties faced in 2008, especially the funding shortage and the delay in the publication of the Machine Preservation Trial, Lifeline managed to achieve internal targets. The company ended the year with \$0.6m net cash on the balance sheet. With the business set to expand significantly in 2009, net cash flow is expected to be positive. Therefore, there is no apparent need for another fund-raising in the near future. We forecast revenue of \$13.4m and \$16.1m and net profits of \$1.1m and \$2.0m for 2009 and 2010, respectively. In our model we have only factored in the case for the LifePort Kidney Transporter. Potential future development costs and sales of other transporters are not considered at this stage.

Company description: Preservation device in organ transplantation

Lifeline develops, manufactures and markets transporters for organ transplantation use. The company was founded in 1998 and listed on AIM in January 2008. Its first product, LifePort Kidney Transporter, is for machine-perfusion based kidney transplantation. The product received regulatory clearance in the US in 2003 and in the EU in 2004.

The company also has a portfolio of prototype products including transporters for other organs, as well as a pharmacological division. Projects from these divisions are not currently being developed due to cash constraints.

LifePort Kidney Transporter

The LifePort Kidney Transporter is a portable electronic device for the preservation and transportation of kidneys for transplantation. Once the kidney is recovered and placed in LifePort, the device pumps a cold preservation solution through the organ and monitors its health status in a sealed, sterile and protected environment. LifePort gives transplant physicians access to real-time data on the kidney prior to the transplantation. It can also help assess the usability of sub-standard kidneys that would otherwise be discarded.

Exhibit 1: Kidney LifePort



Source: Lifeline Scientific

Previously marketed machine-perfusion products have been cumbersome, difficult to use and unreliable. Therefore, despite the compelling medical evidence suggesting machine-perfusion's superiority, the market remains dominated by the traditional cold-storage method, using a simple box of ice to preserve the organ. LifePort is the first to offer both the superior clinical outcome of the mechanical perfusion methodology as well as the portability and ease of use comparable to a box of ice.

Lifeline's business model is typical of a medical device company. It aims to increase LifePort's installation base and promote usage for a larger pool of kidney transplantation procedures. The majority of revenue is earned through the sale of consumables and perfusion solutions per transplant operation.

Since its approval, LifePort has been in pilot use in both North America and Europe. To date, over 300 LifePort machines have been installed in 90 transplant programmes in 16 countries, having been used in more than 17,000 kidney transplantation procedures.

A rich pipeline

Following its IPO in January 2008, Lifeline's sole focus has been in marketing LifePort and preparing for an evidence-based commercial launch. Apart from the kidney transporter, the company has also designed a series of proprietary preservation devices for the heart, liver, lungs and pancreas. These products address a wider unmet medical need, and, relative to the kidney transporter, are even more clinically ground-breaking. Prototypes of these devices are in various stages of pre-clinical evaluation at medical research institutions worldwide. Further development work has been on hold due to the lack of funding.

Lifeline also has a pharmacological division, Bowman Research, developing proprietary evaluating tools based on LifePort technology to assist drug development and medical research. In 2008, Bowman's main focus was on the development of the LifePort lung and liver platforms, evaluating the effect of drugs within isolated and perfused human organs that had been donated for research. This technology could be particularly useful in disease areas where reliable animal models are not available, such as cystic fibrosis and Hepatitis C.

LifePort: Competitive advantage

The world's growing, ageing population has led to more cases of diabetes and high blood pressure being reported, driving the incidence of end-stage renal disease (ESRD). Consequently, demand for kidney transplantations has been on the rise and has far outstripped supply. Scarcity of good-quality donated kidneys has resulted in a long list of patients waiting for a suitable organ to become available. In the US and EU there are about 35,000 kidney transplants every year, but the patients on waiting lists are estimated to be three-to-four times this number. A solution is urgently needed to alleviate this shortage of supply.

Kidney donor categorisation

Kidney donors are either living or cadaveric (dead). As kidney transplantations from living donors can be planned, there is almost no need to store the organ in transit. Therefore, kidneys from living donors are outside the scope of LifePort's market.

Cadaveric donors can be sub-divided into two groups: donors after brain death (DBD), or heart-beating-donors (HBD), and donors after cardiac death (DCD), or non-heart-beating donors (NHBD).

Donors after brain death (DBD, or HBD)

As the name suggests, these donors are patients who have been pronounced dead within the current brain-death definition but otherwise still have a beating heart. In this instance, unless life support is withdrawn, the circulation system remains normal, and the kidneys from these donors can maintain their perfect health status. For this reason, kidneys from DBD are better suited to transplantation use and have been the focal point of organ procurement organisations' management.

Among DBD, standard criteria donors (SCD) are typically healthy individuals who are less advanced in age with perfectly functioning kidneys but have died accidentally. Expanded criteria donors (ECD) are usually aged 60 or older, or over 50 years with at least two of the following medical conditions: (1) a hypertension history, (2) serum creatinine > 1.5 mg/dl, or 3) death from cerebrovascular

accident. For decades, donor kidneys from this category were beyond consideration for use in transplantation. However, the disparity between the number of patients on waiting lists and the availability of good-quality donor kidneys has driven some surgeons to resort to some sub-standard organs as long as certain criteria are met. The past decade has seen the number of transplantation procedures from ECD grow steadily.

Donors after cardiac death (DCD, or NHBD)

Apart from ethical reasons in some countries, kidneys from these donors are traditionally not used because it is usually difficult to judge the health status of the organ. In practice, assessment of the warm ischemic time of the kidney after the death proves hard. While some kidneys from this category are believed to be usable, lack of assessment tools has made it an impossible task for surgeons to utilise them in transplantation procedures.

In recent years various transplantation centres have revisited this category of donors due to the exacerbating problem of the scarcity of donated kidneys. In both the US and Europe there is further sub-classification of this group of donors. In principle, the classification is based on whether the death is controlled or not. Controlled death usually means the warm ischemic time can be very short if planned well, and as such the kidneys would often be usable. Uncontrolled death, on the contrary, normally means long warm ischemic time and longer irreversible damage of the kidneys, and therefore the kidneys cannot be used.

Markets

The global kidney transplantation market is restrained by the availability of kidneys from suitable donors. For standard donors, such as living and DBD donors, raising public awareness and promoting consent for donation is the key. However, with the consent rate already relatively high in developed countries, growth from this donor pool is likely to remain limited. For example, in the US, the number of people who have agreed to donate organs in death has already reached nearly 70%. Globally, around 50,000 (29,000 from cadaveric donors) kidney transplantations are performed annually. Outside North America and Europe, increased awareness and development of transplantation centres will be driving the growth in this area. Within North America and Europe, however, efforts have to be made to tap an enlarged donor population, especially DCD donors. We estimate that the inclusion of suitable DCD donors could at least double the current size of the donor population.

Kidney preservation methods

Lifeline's main product, LifePort, competes with the traditional cold-storage based method – simply using a box of ice.

There are two main methods to preserve a kidney during the process of transplantation: cold storage (CS) and machine perfusion (MP). In cold storage, the organ is placed in a plastic bag with preservation solution, and the whole bag is stored in a box of ice. In machine perfusion, the cold preservation solution is pumped through the kidney to nourish it and maintain its health status.

The choice of using cold storage or machine perfusion has been under debate for decades. Over the years, cold storage has had an upper hand and established itself as the industry standard due to the following reasons:

- 1) Cold storage is simple to use, and in most cases, whereby the donated kidneys are in good condition, it works very well for recipients;
- 2) Although machine perfusion historically claimed to have longer storage time and better clinical results, it often required large equipment and dedicated technicians, and lacked portability; and
- 3) There is a lack of concrete clinical data to support machine perfusion's superiority.

Cold storage is currently used almost exclusively in Europe, and in approximately 80% of procedures in the US.

However, the ever-increasing issue of the shortage of donated kidneys suitable for transplantation use has led surgeons to reconsider the use of machine perfusion, as this method can potentially deal with a much larger pool of donated kidneys. This is particularly important for ECD and DCD donors. The clinical outcome for transplantations from these donors with the cold storage method is less satisfactory. Machine perfusion not only improves the preservation of the kidney's health status and results in a higher transplant success rate, but also, more importantly, provides a means by which the exact health status of a kidney can be evaluated before a decision is made on the usability of the organ.

Lifeline's first product, LifePort, is a machine perfusion-based device which has also solved a number of the disadvantages other traditional MP-based devices have, ie, portability and ease of operation.

Exhibit 2: Comparison of kidney preservation methods

	Cold storage	Traditional machine perfusion	LifePort
Ease of use	Very easy	Difficult	Easy
Portability	Yes	No	Yes
Preservation time	Short	Longer	Longer
Clinical outcome on SCD	Good	Good	Good
Clinical outcome on ECD and DCD	Poor	Better	Better
Assessment of usability of kidney	No	Yes	Yes
Cost	Low	High	Medium

Source: Edison Investment Research

LifePort adoption

To date, during its pilot introduction phase, over 300 LifePort machines have been installed in 90 transplant programmes in 16 countries, having treated more than 17,000 kidneys.

Adoption is highest in North America, where the transplantation community has an established history in using machine-perfusion based procedures. Following the signing up of several major transplantation centres throughout the US and Canada during the course of 2008, LifePort has penetrated more than 80% of the US and almost 100% of the Canadian market.

Notwithstanding this high adoption rate, LifePort has far from reached saturation point in this important market. This is because transplantation centres are typically not using this device for all kidney procedures. Many centres resort to LifePort only for sub-standard (ECD) donors, and many others have not attempted to use kidneys from non-heart-beating donors (NHBD). However, with the increase in use and the availability of more clinical data, we expect LifePort usage to expand further among kidney transplantation procedures.

Adoption in Europe has lagged far behind North America, primarily because transplantation surgeons in this region have historically been using the cold-storage based method almost exclusively. To date only a few centres such as the University of Leuven in Belgium and University of Maastricht in the Netherlands have adopted LifePort for routine clinical use.

However, transplant centres across Europe are increasingly recognising the benefit of machine-perfusion, particularly in their attempts to utilise ECD and DCD sub-categories to combat the shortage of suitable kidneys for transplantation. Indeed, the Eurotransplant network, which comprises transplantation centres in Germany, the Netherlands and Belgium, conducted a first perspective clinical study to compare cold-storage and machine-perfusion (using LifePort) based approaches, and concluded that machine-perfusion is superior to cold-storage. This study is likely to trigger the endorsement of LifePort in the European transplantation community.

Machine perfusion trial results

There is a significant body of evidence suggesting that machine-perfusion based kidney transplantation should produce a better outcome than the cold-storage based method. However, until recently there had been no comprehensive prospective study to confirm this. The Eurotransplant study, initiated in 2005, was a first-in-kind, randomised, controlled, statistically powered study that directly compared the transplantation outcome using two different storage methods. When enrolled donors donated a pair of kidneys, one was assigned to a recipient using cold-storage, and the other to another recipient using machine-perfusion (LifePort).

During the year that followed the initiation of the trial, 336 pairs of kidneys were successfully transplanted and included for evaluation. The primary endpoint is the incidence of delayed graft function (DGF), defined as requiring dialysis following the first week of operation. The secondary endpoints are the incidence of functional DGF, duration of DGF, primary non-function, the serum creatinine level and clearance, acute rejection, toxicity of the calcineurin inhibitor, the length of hospital stay and patient survival.

The primary endpoint was met. In the machine-perfusion group, 70 recipients experienced DGF as compared to 89 in the cold-storage group. Statistical analysis suggested that machine-perfusion significantly reduced the risk of DGF as compared to cold-storage with an adjusted odds ratio of 0.57 ($p=0.01$). This result was more striking as other sub-group analysis revealed that no statistical difference in DGF occurrence existed between other pairs of comparison groups, such as DBD vs DCD, or DBD vs ECD.

Results from secondary endpoints were favourable to LifePort, too. Machine-perfusion achieved a statistically significant better outcome in functional DGF, duration of DGF, serum creatinine clearance and one-year graft survival. In all other endpoints machine-perfusion performed slightly better, but not achieving statistical significance.

These findings serve to dissipate any doubt that the global kidney transplantation communities might have reserved for the superiority of machine-perfusion, and in particular, LifePort. These results were published in January 2009 in *New England Journal of Medicine* (Moers *et al*, Jan 1 2009, p7-19).

Exhibit 3: Summary of the Eurotransplant study

	Machine perfusion (MP)	Cold storage (CS)	MP better than CS?	Statistically significant?
Primary endpoint:				
Incidence of DGF	20.8%	26.5%	Yes	Yes, p=0.03
Other endpoints:				
Functional DGF	22.9%	30.1%	Yes	Yes, p=0.03
Duration of DGF	10 days	13 days	Yes	Yes, p=0.04
Primary non-function	2.1%	4.8%	Yes	No, p=0.08
Serum creatinine clearance	Not disclosed	Not disclosed	No difference	N/A
Serum creatinine value	Median area under the curve 1,456	Median area under the curve 1,787	Yes	Yes, p=0.01
Acute rejection	Not disclosed	Not disclosed	No difference	N/A
Toxicity of the calcineurin inhibitor	Not disclosed	Not disclosed	No difference	N/A
Length of hospital stay	Not disclosed	Not disclosed	No difference	N/A
One-year patient survival	94%	90%	Yes	Yes, p=0.04

Source: Edison Investment Research

Opportunities

At this stage, Lifeline appears to be in a good position to make more significant commercial progress for LifePort. The main opportunities for growth come from the following areas:

- 1) The European market. The relatively un-penetrated European market remains the biggest market to tap. The Eurotransplant study was designed so that machine-perfusion should be used for all kidney categories. The conclusion of the study will pave the way for the pan-European adoption of LifePort, following a possible consultation period with governments' reimbursement agencies.
- 2) The North American market. While the majority of the transplantation centres in North America have adopted LifePort, in most cases only sub-standard kidneys are used with the device, such as those from ECD and DCD donors. The company can promote the use of LifePort for traditional donors, on the back of the Eurotransplant study.
- 3) Larger pool of kidneys for access. As the scarcity of suitable donor kidneys persists, transplantation centres could seek to recover kidneys more aggressively in the sub-standard donor pools, a population that has remained shut to organ procurement centres. LifePort provides a means to precisely assess and monitor these kidneys, and as such, may recover more usable organs. The *New England Journal of Medicine* paper may serve as a catalyst for key opinion leaders to advocate such a move.
- 4) Increase of consumables' selling price. Lifeline has been piloting LifePort for four years now. With the clinical evidence accumulated and a major trial concluded, it is justifiable to sell the device at a full market price rather than the discounted pilot price. We expect the company to increase its consumables' selling price during the course of 2009.

The company has not publicly disclosed the average selling price of the device or the consumables. For illustrative purposes, we model the current price of total consumables used in a transplantation procedure to be \$1,250 and the LifePort device \$8,000. We set out our base-case scenario of LifePort's sales pattern up to 2015 in Exhibit 4.

Exhibit 4: An illustrative example of a potential LifePort sales pattern

Note: The company does not disclose volumes or average selling price. LifePort sales assumes a rate of 60 device a year for replacement from 2010.

	2008	2009	2010	2011	2012	2013	2014	2015
Global kidney case market	51,000	53,550	56,228	59,039	61,991	65,090	68,345	75,179
Market share	10%	15%	16%	17%	18%	19%	20%	20%
Consumables unit price (\$)	1,250	1,500	1,575	1,654	1,736	1,823	1,914	2,010
Consumables sales (\$m)	6.4	12.0	14.2	16.6	19.4	22.5	26.2	30.2
LifePort units	60	40	100	100	100	100	100	100
LifePort unit price (\$)	8,000	8,240	8,487	8,742	9,004	9,274	9,552	9,839
LifePort sales (\$m)	0.5	0.3	0.8	0.9	0.9	0.9	1.0	1.0
Core sales (\$m)	6.9	12.4	15.0	17.5	20.3	23.5	27.1	31.2
LifePort installation base	300	340	380	420	460	500	540	580
Annual unit utilisation rate	17	24	24	24	24	25	25	26

Source: Edison Investment Research

Valuation

Lifeline's current share price is 42p, equivalent to a market capitalisation of £6.6m. This is 72% down from its 150p per share IPO price in January 2008. Apart from the general sour sentiment towards the small-cap healthcare space, this decline could stem from the slower business development due to the lower amount of funds raised in the IPO (\$11m versus the \$16m hoped for) and the delay in the publication of the Eurotransplant trial, which prevented Lifeline from carrying out a full commercial marketing campaign in 2008. In addition, the shares are currently not tradable in CREST, resulting in a low volume of trading. The planned admission into CREST by mid-year 2009 may improve the liquidity.

We forecast a profitable 2009, with net profits of £1.1m. Our net profit forecast for 2010 is £2.0m. This will put the stock on a prospective P/E multiple of 8.6x and 4.8x for 2009 and 2010, respectively. In comparison, global integrated medical device companies are trading above 10x earnings for both years. In the London market, medical device companies in the small-cap space also appear to be trading on higher multiples. Lifeline's expected intensified commercial activities from 2009 onwards is likely to bring further upside on the numbers, especially from outside the core US territory, in which case a re-rating looks very realistic.

Exhibit 5: Comparative valuation (as at close of business 5 May 2009)

	Stock exchange	Market cap (£m)	2009 P/E (x)	2010 P/E (x)
Smith & Nephew	LSE	4,140	11.9	10.3
Zimmer	NYSE	6,502	11.3	10.2
Stryker	NYSE	10,562	13.5	12.0
Consort Medical	LSE	117	9.1	9.2
Corin	LSE	26	15.6	12.9
Surgical Innovations	LSE	6	18.1	9.1
LidCo	LSE	17	31.4	6.6
Deltex	LSE	13	N/A	38.3
Mean			15.8	13.6
Median			13.5	10.3

Source: Datastream

In our base-case valuation model, we have assumed a conservative 10% annual growth in normalised profits after tax beyond 2010. We have not accounted for any potential upside from other parts of the business, including the market outside North America and Europe, and the

development of other organ transporters. Our valuation model suggests a figure of 119p/share, discounted at 12%. A more bearish assumption with a growth rate of 5% and a discount rate of 15% suggests a fair value of 77p/share. In a more aggressive scenario, we have assumed an annual growth rate of 20% in the normalised net profits, and a total investment of \$10m for the development of other organ transporters, with revenue stream coming in from 2013, which yields a figure of 244p/share. A valuation based on a mid-case scenario using a five-year discounted cash flow model, with a terminal value based on a 2% long-term growth rate and discounted at 15%, yields a figure of around \$40m, or 171p per share.

Sensitivities and risks

For the past five years, despite the success in the clinical field, commercial progress has been slow due to the lack of evidence on the cost-reward benefit. Now that 16,000 kidney transplants have been performed using LifePort and a comprehensive clinical study has weighed in favour of the device, Lifeline is well positioned to make more progress on the commercial front.

Arguably, 2009 will prove a pivotal year for Lifeline. This is a year that will truly test whether the company can materialise the positive sentiment on LifePort within the transplantation community into commercial sales. Our investment case is focused on the organic growth in its core North American territory in 2009 and 2010. The European route is less visible, but dialogues with individual European countries should be well underway. Reimbursement clearance may come as early as Q409, and European sales could start to contribute significantly from 2010. Sales in the rest of the world, including Brazil, Russia, Japan, and China, could provide upside from 2010 onwards.

It is crucial that Lifeline should have a positive cash flow in 2009 without having to resort to a further funding. In the short term, the key risk Lifeline is facing is under-achieving the sales target. Lifeline must generate enough sales to maintain a positive cash flow and accumulate adequate working capital for the next-stage expansion. Slower-than-expected sales could occur primarily due to: (1) difficulty in moving to full commercial pricing; (2) slow adoption of LifePort in a wider pool of donated kidneys; and (3) a decrease in the number of kidney donors.

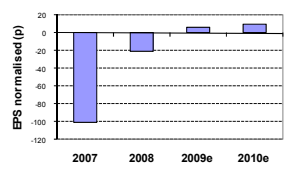
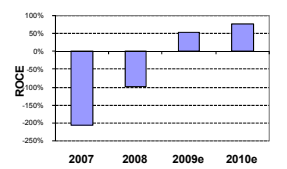
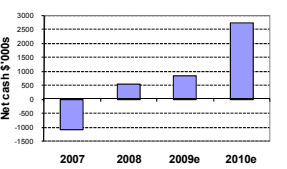
Financials

Lifeline achieved 39% top line growth to \$8.3m in FY08, which includes \$7.2m in core device-related sales and \$1.1m grant income. We forecast the core sales to increase by nearly 70% in 2009 and the grant income to remain steady. The gross margin on LifePort-related sales was around 55%, which will increase to nearly 70% in 2009 as the volume of sales increases. General operating expenses rose by 1.8% to \$7.9m, which will drop by 5% in 2009 due to the absence of one-off IPO-related items in the prior year. R&D expense decreased by more than 50% to \$0.8m, and we expect it to fall further in 2009. The company ended the year with net cash of \$0.6m. With the business set to expand significantly in 2009, the net cash flow is expected to turn positive and we forecast \$307k. Our financial model for 2009 and 2010 is presented in Exhibit 6, which only takes into account the Kidney Transporter. Potential development costs and sales of other transporters are not considered here.

Exhibit 6: Financials

Year end 31 December	\$'000s	2007	2008	2009e	2010e
		US GAAP	US GAAP	US GAAP	US GAAP
PROFIT & LOSS					
Revenue		5,996	8,333	13,428	16,068
Cost of Sales		(4,256)	(4,220)	(4,753)	(5,420)
Gross Profit		1,740	4,113	8,676	10,648
EBITDA		(7,143)	(4,140)	1,439	2,359
Operating Profit (before GW and except.)		(7,646)	(4,517)	1,239	2,159
Goodwill Amortisation		(185)	(81)	(50)	(50)
Exceptionals		(760)	1,000	0	0
Other		(10)	0	0	0
Operating Profit		(8,601)	(3,598)	1,189	2,109
Net Interest		(14,299)	(69)	(82)	(70)
Profit Before Tax (norm)		(21,945)	(4,586)	1,157	2,089
Profit Before Tax (GAAP)		(22,900)	(3,667)	1,107	2,039
Tax		0	0	0	0
Profit After Tax (norm)		(21,955)	(4,586)	1,157	2,089
Profit After Tax (GAAP)		(22,900)	(3,667)	1,107	2,039
Average Number of Shares Outstanding (m)		15.7	15.7	15.8	15.8
EPS - normalised (c)		(139.8)	(29.2)	7.3	13.2
EPS - GAAP (c)		(145.9)	(23.3)	7.0	12.9
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		29.0	49.4	64.6	66.3
EBITDA Margin (%)		(119.1)	(49.7)	10.7	14.7
Operating Margin (before GW and except.) (%)		(127.5)	(54.2)	9.2	13.4
BALANCE SHEET					
Fixed Assets		2,367	2,071	2,121	2,071
Intangible Assets		1,281	1,339	1,289	1,239
Tangible Assets		1,086	732	832	832
Investments		0	0	0	0
Current Assets		11,301	4,369	5,654	8,037
Stocks		417	803	968	1,136
Debtors		803	1,504	2,424	2,900
Cash		232	1,886	2,063	3,801
Other		9,849	176	200	200
Current Liabilities		(6,102)	(2,730)	(3,059)	(3,477)
Creditors		(6,043)	(2,645)	(2,979)	(3,397)
Short term borrowings		(59)	(85)	(80)	(80)
Long Term Liabilities		(1,294)	(1,256)	(1,172)	(1,048)
Long term borrowings		(1,270)	(1,247)	(1,122)	(998)
Other long term liabilities		(24)	(9)	(50)	(50)
Net Assets		6,272	2,454	3,544	5,583
CASH FLOW					
Operating Cash Flow		(4,167)	(7,565)	688	2,132
Net Interest		0	0	(82)	(70)
Tax		0	0	0	0
Capex		(71)	(81)	(300)	(200)
Acquisitions/disposals		0	0	0	0
Financing		(1,189)	9,297	0	0
Dividends		0	0	0	0
Net Cash Flow		(5,427)	1,651	307	1,863
Opening net debt/(cash)		(4,330)	1,097	(554)	(861)
HP finance leases initiated		0	0	0	0
Other		0	0	0	(0)
Closing net debt/(cash)		1,097	(554)	(861)	(2,723)

Source: Edison Investment Research, company accounts

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 07-10e	N/A	ROCE 09e	54.0	Gearing 09e	N/A	Address:	
EPS CAGR 08-10e	N/A	Avg ROCE 07-10e	N/A	Interest cover 09e	15.2	2570 E. Devon Ave	
EBITDA CAGR 07-10e	N/A	ROE 09e	32.6	CA/CL 09e	1.8	Des Plaines, IL 60018	
EBITDA CAGR 08-10e	N/A	Gross margin 09e	64.6	Stock turn 09e	26.3	Phone	(847) 294 0300
Sales CAGR 07-10e	27.9	Operating margin 09e	9.2	Debtor days 09e	65.9	Fax	(847) 294 0301
Sales CAGR 08-10e	26.9	Gr mgn / Op mgn 09e	7.0	Creditor days 09e	81.0	www.lifeline-scientific.com	

Principal shareholders	%	Management team
HBM Bio Ventures	17.8	CEO: David Kravitz Founder and CEO of the group since 1998, David Kravitz has worked in the organ and tissue medical device field for 15 years. He is a co-inventor of several of Lifeline's proprietary technologies and patents.
RAB Capital	13.6	
Entrepreneur's Fund	12.1	
Koceram NV	9.1	
Forest Finance SA	7.8	
Eric Swenden	6.5	Finance: Lisa Kieres Lisa Kieres rejoined Lifeline in 2008, having previously worked in the company for six years as CFO. She has over 25 years of experience in finance and administration and holds an MBA degree from the University of Chicago.
Dexia Bank Belgium	6.2	
Forthcoming announcements/catalysts	Date	Chairman: John Garcia John Garcia has over 25 years of experience in the health products industry. Before his appointment with Lifeline, he had held senior positions with Sulzermedica, FHP, Bio Science, and Pharmaseal.
AGM	May 2009*	
Trading update	July 2009*	
Interim results	September 2009*	
<i>Note: * = estimated</i>		

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