EQUITY RESEARCH

Medical Developments International Ltd

Results impacted by expansion costs

The result was expected, given previous updates in May and June, with the heavy impact of business expansion and development costs, while the related revenue impact will emerge fully in FY2014 and FY2015. Adjusting for these costs, the underlying EBITDA increased by around 8%.

Highlights of the result were:

- Revenue increased by 3.7%, with strong growth in Medical Devices of 18.4%, offset by a decline in Penthrox sales, due to a shortfall in sales to some ambulance services.
- COGS fell by 1.9% with economies of scale in Medical Devices and improved efficiency in Penthrox production, increasing Operating Profit by 6.2%.
- Expenses increased by 24.5% with around $0.7m in additional business development expenditure, related to the rollout of its spacers into the UK, Europe and the USA.
- The Full Year Dividend was reduced by 1¢ to 5¢ ps Fully Franked.

Major Positives from the Result were:

- Continued strong growth in Asthma products of 18.4%, in both Australia (+87%) and offshore markets, with organic and new contract based growth. Margin growth was limited by a significant investment in sales and marketing.
- A fall in Penthrox sales of 5.4%, with lower sales to ambulance services, offset by increased use elsewhere in Australian and strong growth offshore.
- After adjusting for the increase in Business Development expenses, the underlying EBITDA increased by 8%.
- The Balance Sheet remained strong, with gearing of only 4.3%.

MVP has released the results of a European Phase III trial and a QT trial on Penthrox, which successfully demonstrated that Penthrox is a highly effective and safe analgesic, providing clinically significant pain reduction. An application for regulatory approval is to be lodged in the 1H FY2014, with approval in FY2015.

Positive Outlook suggests continued strong growth

Medical Devices (Asthma) – Continued strong growth, from the full benefit of the recent expansion of distribution and contracts in Australia and the rapidly increasing international sales. This will be boosted by potential entry into the large US market in FY2014 and other markets.

Penthrox – Further penetration in Australia and existing offshore markets, helped by new products. Growth will escalate in FY2015 with the EU launch, a market of over A$200m, following regulatory approval, extending into new markets.

We have adjusted our Profit forecasts for FY2014 and FY2015 with lower growth in Penthrox, now expecting Profit growth of 47% and 40%. However, FY2015 could be boosted by the early EU approval for Penthrox, although the impact will be more significant in FY2016, with a ramp-up in distribution.

Reasons to Buy

Growth Markets – Strong long term growth in MVP's target markets, with increasing demand and penetration, new markets and new product releases.

Market Leadership – Penthrox has a strong market position in analgesia, especially the Emergency Services sector, while its asthma products are now world leading.

A Strong Balance Sheet - No debt, cash of 3.8¢ ps and the ability to fund growth.

Valuation – At a 16.4% discount to our revised Price Target of $1.75 ps, based on a conservative valuation for the current business of $66m ($1.06 ps), and an additional $40m ($0.69 ps) from the expected approval for Penthrox in the EU.

MVP.ASX BUY

16 September 2013

Price:	$1.49
Price Target:	$1.75
Valuation Method:	Sum of Parts
GICS Sector:	Healthcare
12 Mth Price Range:	$1.06 - 2.15
Market Capitalisation:	$87m
Ordinary Shares on Issue:	58.1m
Average Monthly Turnover:	0.72m
Enterprise Value:	$88m
Previous Rating:	**HOLD**

Year Ended June 30		10A	11A	12A	13A	14E	15E
Operating Revenue	**$m**	**8.3**	**10.2**	**11.3**	**11.7**	**14.7**	**18.3**
Revenue growth		*-4.9*	*23.0*	*10.8*	*3.7*	*25.3*	*24.5*
EBITDA	**$m**	**1.6**	**2.7**	**3.9**	**3.4**	**4.8**	**6.6**
EBITDA growth		*-6.9*	*23.2*	*20.0*	*6.2*	*28.4*	*25.7*
EBITDA margin	*%*	*19.6*	*26.8*	*34.2*	*28.7*	*32.7*	*36.2*
EBIT	**$m**	**1.3**	**2.4**	**3.6**	**3.1**	**4.4**	**5.8**
EBIT margin	*%*	*15.3*	*23.3*	*32.0*	*26.8*	*29.6*	*31.8*
NPAT	**$m**	**0.9**	**1.7**	**2.7**	**2.3**	**3.2**	**4.3**
NPAT growth		*-21.1*	*98.3*	*55.1*	*-14.6*	*40.7*	*33.4*
EPS	**¢ps**	**1.7**	**3.4**	**5.1**	**4.1**	**5.6**	**7.4**
EPS growth	*%*	*-16.1*	*98.3*	*49.1*	*-19.4*	*37.8*	*31.2*
DPS	¢ps	0.0	3.0	6.0	5.0	5.5	6.5
Franking	%	0.0	100.0	100.0	100.0	100.0	100.0
PER	**x**	**12.9**	**11.9**	**15.6**	**36.5**	**26.5**	**20.2**
Dividend yield	**%**	**0.0**	**7.4**	**7.6**	**3.4**	**3.7**	**4.4**
NTA/share	¢ ps	7.2	9.1	7.9	2.5	3.7	10.2
EV/EBITDA	x	5.9	6.2	10.5	25.6	18.2	13.4
Gearing (D/E)	%	0.0	0.0	0.0	4.3	5.7	0.0
P/OCF	x	6.2	6.8	13.2	80.0	21.4	18.0
ROA	%	9.2	15.3	20.2	15.9	20.6	24.6
ROE	%	7.2	12.8	17.7	14.5	19.7	23.3
Interest cover (EBIT)	x	na	na	na	na	na	na

MVP v XSI (S&P/ASX Small Industrial Index)

Source: IRESS

Activities

An Australian healthcare company specialising in pain relief and respiratory medicine

www.medicaldev.com

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Medical Developments Int (MVP)

Current Price: $1.49 ps **Target Price: $1.75 ps**

FINANCIAL PERFORMANCE							
Year ended 30-Jun		2010A	2011A	2012A	2013A	2014E	2015E
Sales Revenue	**$m**	**8.3**	**10.2**	**11.3**	**11.7**	**14.7**	**18.3**
Cost of Goods Sold	$m	-3.0	-3.7	-3.5	-3.4	-4.0	-4.9
Gross Operating Profit	**$m**	**5.3**	**6.5**	**7.8**	**8.3**	**10.7**	**13.5**
Expenses	$m	-3.7	-3.8	-4.0	-5.0	-5.9	-6.8
EBITDA	**$m**	**1.6**	**2.7**	**3.9**	**3.4**	**4.8**	**6.6**
Depreciation & Amort	$m	-0.4	-0.4	-0.2	-0.2	-0.3	-0.3
EBIT	**$m**	**1.3**	**2.4**	**3.6**	**3.1**	**4.4**	**5.8**
Interest	$m	0.0	0.1	0.2	0.1	0.1	0.2
Pre Tax Profit	$m	1.3	2.5	3.8	3.2	4.5	6.0
Tax	$m	-0.4	-0.8	-1.1	-0.9	-1.2	-1.7
Minorities	$m	0.0	0.0	0.0	0.0	0.0	0.0
Normalised Profit	**$m**	**0.9**	**1.7**	**2.7**	**2.3**	**3.2**	**4.3**
Sig Items & Costs	$m	0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	**$m**	**0.9**	**1.7**	**2.7**	**2.3**	**3.2**	**4.3**

CASH FLOW						
Year ended 30-Jun		2011A	2012A	2013A	2014E	2015E
Operating EBITDA	**$m**	**2.7**	**3.9**	**3.4**	**4.8**	**6.6**
Net Interest Paid	$m	0.1	0.2	0.1	0.1	0.2
Tax Paid	$m	-0.2	-0.8	-1.1	-0.9	-1.2
Chg WorkCap &	$m	0.3	-0.2	-0.6	0.0	-0.8
Other	$m	0.1	0.1	-0.7	0.0	0.0
Operating Cash Flow	**$m**	**3.0**	**3.2**	**1.1**	**4.0**	**4.9**
Capex	$m	-0.4	-0.1	-0.5	-0.5	-0.7
Capitalised R&D	$m	-0.9	-2.1	-2.5	-2.0	-1.5
Free Cash Flow	**$m**	**1.7**	**1.0**	**-2.0**	**1.5**	**2.7**
Acquisitions/Asset Sales	$m	0.0	0.0	0.0	0.0	0.0
Dividends Paid**	$m	0.0	-1.2	-2.3	-2.6	-3.5
Equity**	$m	0.0	0.1	0.1	0.8	2.1
Debt	$m	0.0	0.0	1.4	0.6	0.0
Change in Net Cash	**$m**	**1.7**	**-0.1**	**-2.7**	**0.3**	**1.2**

GROWTH		2010A	2011A	2012A	2013A	2014E	2015E
Revenue	%	-4.9	23.0	10.8	3.7	25.3	24.5
COGS	%	-1.3	22.6	-5.5	-1.9	17.6	21.3
Expenses	%	-1.0	3.2	4.9	24.5	19.0	15.8
EBIT	%	-21.6	86.4	52.4	-13.2	38.6	33.8
Normalised Profit	%	-21.1	98.3	55.1	-14.6	40.7	33.4
EPS	%	-16.1	98.3	49.1	-19.4	37.8	31.2

RATIOS		2010A	2011A	2012A	2013A	2014E	2015E
Gross Margin	%	63.9	64.1	69.4	71.0	72.8	73.5
EBITDA / Sales	%	19.6	26.8	34.2	28.7	32.7	36.2
EBIT / Sales	%	15.3	23.3	32.0	26.8	29.6	31.8
Effective Tax Rate	%	31.0	30.1	28.6	27.7	27.0	28.0
Interest Cover	x	na	na	na	na	na	na

BALANCE SHEET		2011A	2012A	2013A	2014E	2015E
Cash	$m	3.5	3.5	0.8	1.0	2.2
Receivables	$m	1.6	2.0	2.3	2.7	3.4
Inventory	$m	0.9	1.1	1.4	1.5	1.8
Other Current Assets	$m	0.1	0.1	0.4	0.6	0.8
Current Assets	**$m**	**6.2**	**6.7**	**4.9**	**5.8**	**8.2**
Property, Plant & Equipment	$m	0.7	0.7	1.0	1.2	1.6
Intangibles	$m	9.8	11.8	14.3	15.0	14.0
Other NC Assets	$m	0.0	0.0	0.0	0.0	1.5
Non Current Assets	**$m**	**10.5**	**12.4**	**15.3**	**16.2**	**17.1**
Total Assets	**$m**	**16.7**	**19.1**	**20.3**	**22.1**	**25.3**
Payables	$m	1.2	1.6	1.6	2.1	2.3
Current Debt	$m	0.0	0.0	1.4	2.0	2.0
Other Current Liabilities	$m	0.6	0.6	0.2	0.3	0.4
Current Liabilities	**$m**	**1.8**	**2.1**	**3.2**	**4.4**	**4.7**
Non Current Debt	$m	0.0	0.0	0.1	0.0	0.0
Other NC Liabilities	$m	0.4	0.8	1.2	0.5	0.6
Non Current Liabities	**$m**	**0.4**	**0.8**	**1.3**	**0.5**	**0.6**
Total Liabilities	**$m**	**2.2**	**3.0**	**4.5**	**4.9**	**5.3**
Shareholder Funds	**$m**	**14.5**	**16.2**	**15.7**	**17.2**	**20.1**

PER SHARE		2010A	2011A	2012A	2013A	2014E	2015E
Issued Shares	m	51.4	51.4	55.7	57.4	58.1	59.5
Issued Shares (Wt Avg)	m	51.4	51.4	53.4	56.6	57.8	58.8
EPS	¢ps	1.7	3.4	5.1	4.1	5.6	7.4
EPS (diluted for Options)*	¢ps	1.7	3.4	5.1	4.1	5.6	7.4
Operating Cash Flow ps	¢ps	3.5	5.9	6.0	1.9	7.0	8.3
Free Cash Flow	¢ps	3.5	3.4	1.9	-3.5	2.6	4.5
DPS**	¢ps	0.0	3.0	6.0	5.0	5.5	6.5
Franking	%	0.0	100.0	100.0	100.0	100.0	100.0
Dividend Payout Ratio	%	0.0	88.4	118.6	122.6	97.9	88.1

*Diluted for "in the Money" options and MD incentive shares

BALANCE SHEET RATIOS		2011A	2012A	2013A	2014E	2015E
Receivables turn	x	7.8	6.1	5.3	5.8	6.0
Net Debt	$m	0.0	0.0	0.7	1.0	0.0
Gearing (D:E)	%	0.0	0.0	4.3	5.7	0.0
Revenue/Working Capital	x	7.5	7.3	5.6	7.0	6.4
Current Ratio (CA / CL)	x	3.4	3.1	1.5	1.3	1.7
Net Assets	¢ps	28.1	29.0	27.4	29.6	33.7
Net Tangible Assets	¢ps	9.1	7.9	2.5	3.7	10.2
Return On Assets	%	15.3	20.2	15.9	20.6	24.6
Return on Equity	%	12.8	17.7	14.5	19.7	23.3

KEY PARAMETERS		2010A	2011A	2012A	2013A	2014E	2015E
PE Ratio	x	12.9	11.9	15.6	36.5	26.5	20.2
PE Ratio (Diluted)*	x	12.9	11.9	15.6	36.5	26.5	20.2
Enterprise Value / EBITDA	x	5.9	6.2	10.5	25.6	18.2	13.4
Cash Flow ratio	x	6.2	6.8	13.2	80.0	21.4	18.0
Dividend Yield	%	0.0	7.4	7.6	3.4	3.7	4.4
Dividend Payout Ratio	%	0.0	88.4	118.6	122.6	97.9	88.1

VALUATION				
Valuation Method	**$**	**Premium(+)/Discount(-) to**		**%**
EV:EBITDA Valuation	1.06			
EU Approval for Penthrox	0.69			
Sum of The Parts	**1.75**	Current Price		-14.7
DCF	1.55	Current Price		-3.6
Current Price	1.49	XSI PER - FY14		100.9
Market Capitalisation	$85.6m	Enterprise Value		86.2

SEGMENTS		2010A	2011A	2012A	2013A	2014E	2015E
Sales Revenue							
Penthrox	$m	4.9	6.3	6.6	6.3	6.7	8.8
Medical	$m	3.0	3.6	4.3	5.1	7.6	9.0
Veterinary	$m	0.4	0.3	0.4	0.3	0.4	0.5
EBITDA							
Penthrox	$m	1.6	2.2	2.9	2.6	2.8	3.7
Medical	$m	0.9	1.2	1.3	1.4	2.5	3.4
Veterinary	$m	0.1	0.1	0.1	0.1	0.2	0.2
Corporate	$m	-1.0	-0.8	-0.4	-0.8	-0.7	-0.7
EBITDA Growth							
Penthrox	%	-25.2	38.4	32.1	-9.7	7.0	32.1
Medical	%	25.1	34.7	4.6	10.6	73.0	36.0
Veterinary	%	95.7	-2.2	-19.4	-2.8	42.9	46.7
EBITDA Margin							
Penthrox	%	32.1	34.9	43.6	41.6	41.8	42.0
Medical	%	31.3	34.6	30.3	28.3	32.9	37.8
Veterinary	%	38.4	42.0	30.3	31.1	37.5	44.0

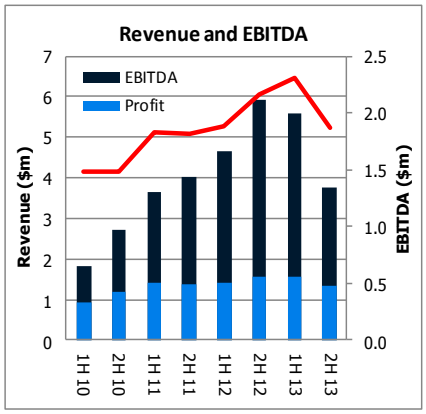
MAJOR SHAREHOLDERS			
David Williams (Ch)	m	30.2	52%
Top 20 (31/08/12)	m	38.7	69%

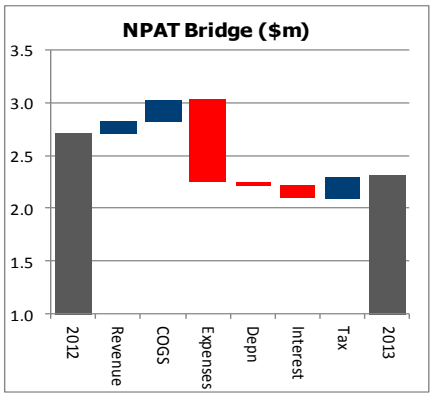
DIRECTORS	MANAGEMENT
David Williams (Non-Exec Ch)	John Sharman (CEO)
Max Johnston (Non-Exec Dir)	
Allan MacCallum (Non-Exec Dir)	
Maurice Van Ryn (Non-Exec Dir)	
Harry Oxer (Non-Exec Dir)	

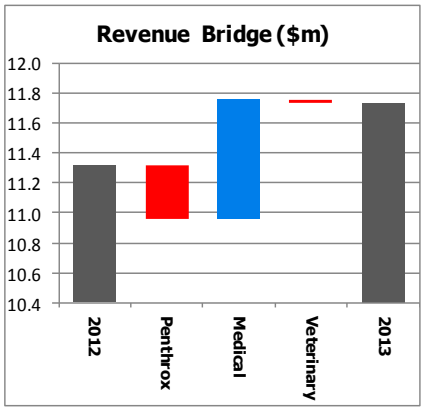
*Diluted for "in the Money" options and MD incentive shar **Assumes 50% take-up of DRP

Source: MVP (Act), Veritas (Est)

Strong growth continues with a 25% increase in the FY2013 Interim Profit Result







Profit & Loss			
Year ended 30-Jun ($m)	**2012**	**2013**	**% Ch**
Total Revenue	**11.3**	**11.7**	**3.7**
Cost of Goods Sold	-3.5	-3.4	-1.9
Operating Profit	**7.8**	**8.3**	**6.2**
Expenses	-4.0	-5.0	24.5
EBITDA	**3.9**	**3.4**	**-12.7**
Depreciation	-0.2	-0.2	
EBIT	3.6	3.1	-13.2
Interest (Net)	0.2	0.1	
Pre-Tax profit	3.8	3.2	-15.8
Tax	-1.1	-0.9	
Net Profit	**2.7**	**2.3**	**-14.6**
Significant Items (Net)	0.0	0.0	
Reported Profit	**2.7**	**2.3**	**-14.6**
Gross Operating Margin (%)	69.4	71.0	
EBITDA Margin (%)	34.2	28.7	
EBIT Margin (%)	32.0	26.8	
Effective Tax Rate (%)	28.6	27.7	
EPS (¢ ps)	5.1	4.1	-19.4
Cash Flow (¢ ps)	6.0	1.9	-68.9
DPS (¢ ps)	6.0	5.0	-16.7
Franking (%)	100.0	100.0	
Dividend Payout Ratio (%)	118.6	122.6	
5 Yr Tot S'Holder Returns (% pa)	8.7	36.8	
3 Yr CAGR Revenue (%)	9.0	12.2	
3 Yr CAGR EBITDA (%)	25.0	27.6	
3 Yr CAGR EPS (%)	35.4	33.6	

Balance Sheet			
As at 30-Jun ($m)	**2012**	**2013**	**% Ch**
Current Assets	6.7	4.9	
Non Current Assets	12.4	15.3	
Total Assets	19.1	20.3	5.9
Current Liabilities	2.1	3.2	
Non Current Liabilities	0.8	1.3	
Total Liabilities	3.0	4.5	52.2
Shareholder Funds	**16.2**	**15.7**	-2.6
Return on Equity (%)	17.7	14.5	
Return on Assets (%)	20.2	15.9	
Net Debt ($m)	0.0	0.7	
Gearing D:E (%)	0.0	4.3	
Cash (¢ ps)	6.3	3.8	
EV : EBITDA (x)	10.5	25.6	
Current ratio (x)	3.1	1.5	
NTAV (¢ ps)	7.9	2.5	-68.4
Inventory Turn (x)	3.5	2.8	
Receivables Turn (x)	6.1	5.3	
Cash Flow	**2012.0**	**2013.0**	**% Ch**
Operating Cash Flow	**3.2**	**1.1**	**-67.0**
Capex	-0.1	-0.5	347.9
Capitalised R&D	-2.1	-2.5	
Investment/Acquisitions	0.0	0.0	
Equity	0.1	0.1	
Debt	0.0	1.4	
Dividends	-1.2	-2.3	
Net Cash Flow	**-0.1**	**-2.7**	

Key Points

Revenue – Growth of 3.7% (split 1H +23%, 2H -13.1%), followed growth of 23.0% and 11.o% in FY2011 and FY2012, attributable to strong growth in asthma products in local and international markets. Penthrox were impacted by lower sales to two ambulance services.

Gross Operating Profit – Overall margins increased from 69.4% to 71.0%, with:

- An improvement in Penthrox from improved sourcing.
- Economies of scale in Medical Devices, partly offset by lower margins on export sales.

Expenses – Increased by 24.56% to $5.0m, with our estimate of additional business development costs of around $0.7m. These were across:

- Start-up costs for the distribution of respiratory devices in the UK, with significant orders only emerging in June 2013.
- The appointment of Global Asthma Co-ordinator and BDMs in Europe and the US for medical devices, and advisory teams to consider entry for Penthrox into the US market.
- Increased marketing costs in Australia, Eastern Europe and Middle East, and tender costs.

EBITDA – Fell by 13.2% to $3.1m, with margins falling from 34.2% to 28.7%. Adjusting for the increase in building development costs of around $0.7m underlying EBITDA rose by 8.0%.

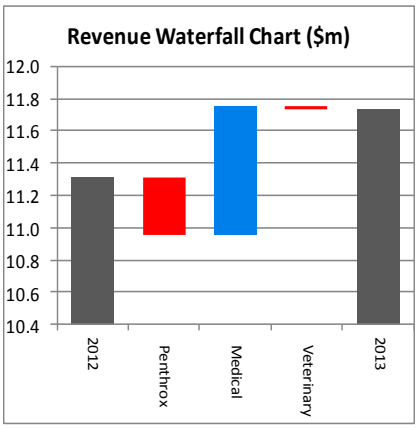
Dividend – The Final DPS fell by 1¢ to 2¢, resulting in a 1¢ fall in Full Year DPS to 5¢ ps FF.

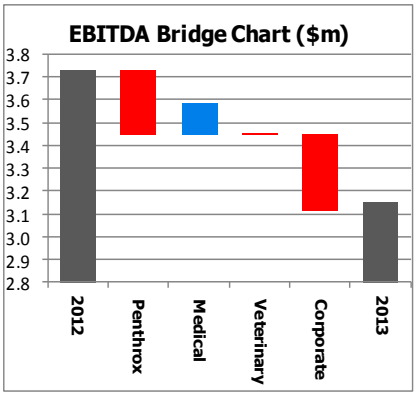
Cash Flow – The 67% fall in Operational Cash Flow and Net Cash Outflow of $2.7m was due to:

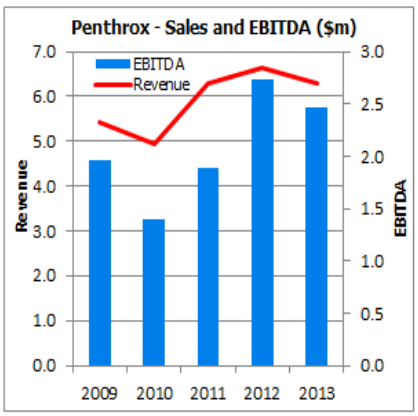
- The 13.2% fall in EBITDA with a $0.9m increase in expenses, as above.
- A 21.1% increase in capitalised development costs to $2.4m, mainly Deferred Registration Costs of $2.1m. The total spent on Clinical Studies over the last 3 years is around $5.3m.
- An increase in Fixed Assets of $0.5m and a $1.1m increase in Dividend Payments, with a higher payments and a lower DRP take-up.

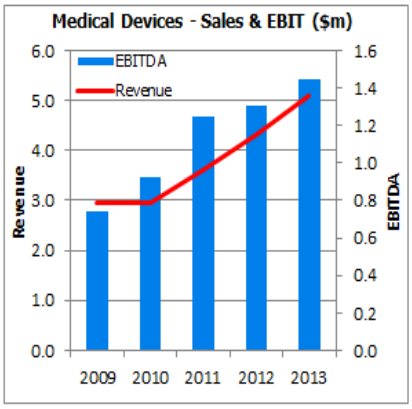
Balance Sheet – Remains strong despite the net cash outflow with gearing (D:E) of 4.3%. NTAV fell with the increased capitalization of the Penthrox development expenses.

Medical Devices drive the Interim Profit Growth









Division	Revenue ($m)			EBITDA ($m)			Margin (%)	
	2012	2013	% ch	2012	2013	% ch	2012	2013
Penthrox	6.6	6.3	-5.4	2.9	2.6	-9.7	43.6	41.6
Medical	4.3	5.1	18.4	1.3	1.4	10.6	30.3	28.3
Veterinary	0.4	0.3	-5.3	0.1	0.1	-2.8	30.3	31.1
Corporate				-0.4	-0.8	74.4		
Total	**11.3**	**11.7**	**3.7**	**3.9**	**3.4**	**-12.3**	**34.2**	**28.9**

Pharmaceuticals (Penthrox) - Sales fell by 5.4% (split 1H +4%, 2H -15%) to $6.3m, with:

- A fall in Australian sales, mainly a drop in sales to 2 ambulance services, partially offset by increases in hospital (+76%), dental (+22%) and cosmetic surgery (+11%), off a low base.
- Increases in Eastern Europe (+40%), Middle East (+20%) and New Zealand (+29%) and other International sales (+53%). NZ benefited from reimbursement approval.

EBITDA fell by 9.7% (split 1H +2%, 2H -22%) and Margins from 43.6% to 41.6%, with the volume decrease and the change in mix, although there was ongoing improved sourcing and increased efficiency.

MVP completed a 300 patient Phase III Clinical Trial and a QT/QTc Clinical study in the UK ahead of an application for European Marketing Approval, to be lodged in September 2013. MVP also appointed advisors to locate a suitable partner in Europe and progressed regulatory applications in a number of other countries, supported by the successful Phase III trial. MVP has invested $5.3m since the beginning of 2011, including a number of clinical studies, providing clinical trial data to include in its Regulatory Dossier.

During the year, a 250 patient colonoscopy study was completed at the Royal Adelaide Hospital and the results of a positive Phase III Bone Marrow Biopsy Clinical Study using Penthrox were published.

Medical Devices - Revenue increased by 18.4% (split 1H +62.1%, 2H -11.7%) to $5.1m, boosted by the launch of new Space Chamber Plus products, with:

- A 28% increase in worldwide respiratory sales, from:
  - A 87% increase in Australian sales, with the GlaxoSmithKline exclusive contract and increased penetration of pharmacies.
  - An increase in international sales, particularly Canada and Europe, offset by lower NZ sales (price related, following a tender renewal).
  - While the UK launch was supported by a sales force of 40, it was too late to generate significant sales in 2H FY13.
- Growth in Other Medical products boosted by new product releases.

The asthma products are now marketed in Australia, New Zealand, UK, Canada, Germany, Belgium, Holland, Luxembourg, Switzerland, HK, Singapore, NZ, UAE and Austria.

EBITDA increased by 10.6% (1H +34%, 2H -24%). Margins were impacted by increased marketing, distribution and regulatory costs, especially the ramp up in the UK sales force.

During FY2012, an independent trial at the University of Western Australia confirmed 'best practice' for its spacers, providing the basis for a strong marketing campaign.

Veterinary – Experienced a lag in sales ahead of the release of a new anaesthetic machine.

Corporate – The increase in cost base of 74.4% reflects an increase in its support base linked to expected growth in Pentrox and Medical Devices.

Medical (Asthma) devices now leading edge

The medical devices division is emerging as the short/medium term driver of Revenue and Operating Profit growth. The strong growth of spacers is important for MPV, as:

- We expect revenue from Medical Devices to exceed Penthrox in the 2H FY2014 and FY2015, prior to the expected EU launch of Penthrox.
- Underlying margins are improving, with economies of scale, boosting current and future profitability, although obscured in FY2013 by market development costs.
- It diversifies revenue sources, reducing the risk associated with the high proportion of revenue in previous years from Penthrox and a concentrated geographical exposure to Australia.

A large element of the growth is based on the success of its new Space Chamber Plus Products (Spacers) in the treatment of Asthma and Chronic Obstructive Pulmonary Disease (COPD), initially launched in January 2012. These spacers allow drugs such as Ventolin to be inhaled in multiple rather than a single breath.

These is an escalating problem with Asthma and COPD:

- The World Health Organisation estimates that over 300m people globally suffer from asthma, with over 250,000 deaths annually attributable. The number of sufferers is expected to increase by 100m to 400m by 2025.
- Within the US, asthma costs continue to escalate, well above estimates in 2007 of US$56bn, or around US$3,300 per sufferer.

Spacers outperform competing products

The initial success of these spacers is based on:

International Recommendation – Supported by a University of Western Australia Study which confirmed their performance as best practice and demonstrating superior performance of the Space Chamber Plus, compared to the AeroChamber plus (Trudell Medical International) and the Breath-A-Tech (Avita), the main competition. This outperformance is based on the superior weight of drug per actuation and the % of drug received per actuation. As part of the USA FDA application, tests showed its spacer to be equivalent to the AeroChamber, the industry leader.

The Cross Valve Technology™ - This ensures very low resistance when inhaling medication and also allows easy exhalation through the chamber.

Universal inhaler base – MVP's spacers are able to deliver Asthma and COPD medication with any brand/type/size of chamber or metered dose inhaler, useable with any standard facemask.

Convenience – The spacer is compact, allowing easy transport and storage, is easily cleaned and dishwasher safe. The transparent polycarbonate chamber enables confirmation of correct usage.

MVP's spacers are: approved for sale in Australia and New Zealand; are CE marked, allowing them to be sold in the EU, currently marketed in Canada, Germany, Belgium, Holland, Luxembourg, Switzerland and Austria; have a Medical Device License for sale in Canada from Health Canada; approved across most of Asia including HK and Singapore; parts of the Middle East; and have been recently approved for re-imbursement in the UK.

MVP is in the process of obtaining marketing approval by the FDA in the US and is working on opportunities in Denmark, Italy, Spain and France.

Expanding distribution base to drive Medical Device growth

2 year supply agreement with GSK in Australia

Australia & New Zealand – In 1H FY2013, MVP won an exclusive two year supply agreement with GlaxoSmithKline (GSK) for circa 130,000 units per annum of its patented "Compact Space Chamber plus" asthma device for the Australian market. This was won against international competition, validating the products, especially its patented "cross valve technology". This followed a recent 3 year contract renewal for the NZ Government, won against 10 international bidders.

5 year supply agreement in Canada

We also expect increased penetration of pharmacies and Emergency Departments and increasing use in Hospitals, Dentistry and cosmetic surgery.

Canada – In 1H FY2013, MVP won a tender to supply its re-useable Asthma space chambers to CAREstream Medical. CAREstream has been awarded an exclusive 5 year contract (with a 1 year option) to supply to around 70% of Canadian hospitals. The tender was won against international competition, which included AeroChamber plus, its main competitor and the incumbent.

Space Chamber with 2 Valve Technology (Reusable)

UK - In December 2012, MVP's Space Chamber Plus and Space Chamber Compact Asthma devices were approved by the MHRA for full reimbursement in the UK. Based on the National Health Systems Data and estimates of the private market, the overall UK market is valued at over A$17m.

While MVP engaged a force of 40 people, significant orders only emerged in June 2013. We would expect MVP to achieve a market penetration of around 20%, or over $3m in Revenue by FY2015.

Europe - MVP has established a European Head Office led by a European Business Development Manager. This supports an expansion in distribution, with Accuramed appointed as its exclusive distributor in Belgium, the Netherlands and Luxembourg.

MVP already has an exclusive agreement with Cegla to distribute its spacers in Germany, Austria and Switzerland. The Cegla contract is expected to deliver initial sales of over 100,000 units pa.

Asia - MVP is exploring opportunities in Asia and has appointed a distributor. While MVP has had initial sales of 50,000 spacers in Hong Kong, it sees greater opportunities in mainland China.

Other - MVP is investigating opportunities in Central and South America, South Africa, Japan and the rest of Asia. We see the possibility of further similar contracts with GSK or other major pharmaceutical companies in other countries.

US Market a major opportunity for Medical Devices

US Asthma Statistics - 2011	Adults	Under 18	Total
Present (m)	18.9	7.1	26.0
% of Relevant Population (231m)	8.1%	9.6%	8.5%
Past and Present (m)	29.0	10.5	39.5
% of Relevant Population (75m)	12.6%	14.2%	13.0%

Source: US Department of Health and Human Services Centre for Disease Control - National Health Interview Survey 2011

USA - MVP has filed a 510K application with the US Food and Drug Authority, to sell its Asthma devices in the USA. This included equivalence tests against AeroChamber, the dominant spacer in the US market. With a decision expected in 1H FY2013, entry is being supported by the appointment of a Business Development Manager.

The USA is the largest and fastest growing Asthma market, with a 2011 US Department of Health and Human Services estimate of 26.0m current sufferers of Asthma, around 9% of the population, with a further 10.0m Chronic Bronchitis and 4.7m Emphysema sufferers. This excludes 13.5m of non-current sufferers, although still prone to relapse. Frost & Sullivan now estimate that 43.9m Americans will be diagnosed with Asthma or COPD by 2016 and conclude:

"*The growing number of Americans with Asthma and COPD is likely to drive both revenue growth and new product innovation in the related therapeutics market.*"

Based on an average annual spend per asthma and COPD sufferer on spacers of A$7 pa, the potential US market is over US$280m, increasing to over US$310m by 2016. AeroChamber, the current leading product generates sale of around US$150m. With a market share of 10% approval could add over $30m in Revenue for MVP.

Expanding its range of Medical Devices

Pulse Oximeter

MVP continues to add to its range of 30 devices and ancillary products into areas where it's a preferred supplier, such as the emergency services, public and private health sectors.

MVP expects to launch an Electronic Peak Flow Meter and new Emergency bags and equipment in CY2013, building on the launch during FY2012 of an Asthma Nebulizer, a Pulse Oximeter and new oxygen masks and regulators.

MVP's nebulizer and pulse oximeter have been launched in the EU, with expectations of the registration of these and the Peak Flow Meter in the US, following approval of its spacers.

UK Pivotal Phase III Clinical Trial confirms Penthrox potential

On 20/1/13, MVP released the results from the randomized, 300 patient double-blind multi-centre placebo controlled study, which evaluated the efficacy and safety of Penthrox for the treatment of acute pain in patients treated for minor trauma in Emergency departments.

The study met all Primary and Secondary Endpoints and Objectives and demonstrated that:

- Penthrox inhalation was a highly effective analgesic and provided clinically significant pain reduction (greater than 30%).
- The median time for first pain relief was 4 minutes, compared to 11 minutes and 16 minutes for intranasal and oromucosal fentanyl. Of the patients tested, 84.6% experienced pain relief within the first 10 inhalations.
- Penthrox was safe to use in the treatment of acute pain, providing pain relief for up to one hour, with intermittent use of a standard 3ml inhaler. It was also portable and simple to administer.

MVP completed a QT/QTc Clinical study which showed no safety concerns or evidence of any effect on the heart rate from a single dose of Penthrox. This will enable an application for European Marketing Approval to be lodged in September 2013.

MVP also appointed advisors to locate a suitable partner in Europe and has progressed regulatory applications in a number of other countries on the back of the successful Phase III trial. The UK market alone is a large market, with £300m pa (A$440m) spent on pain management associated with trauma and minor surgical procedures. A detailed estimate of the potential UK market is included in Appendix 1.

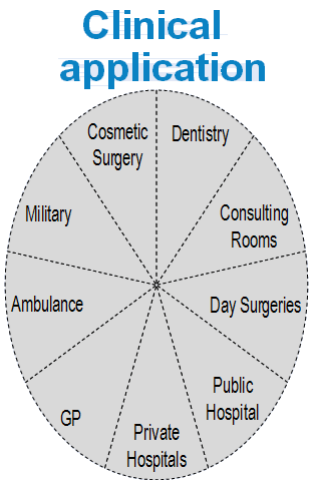
Penthrox has advantages over its competition (nitrous oxide and morphine) with:

- **Rapid onset**
- **Easily administered and improves patient compliance**
- **Limited side effects with no effect on vital signs**
- **Cost advantages**
- **A non-narcotic and a non-opioid**
- **Easily stored**

Other New Markets

We expect subsequent registration of Penthrox in a wide spread of countries, based on EU approval and the related dossier. This will include some of the 24 countries where it has lodged applications, particularly Canada, Eastern Europe, Russia, the Middle East and Asian countries. As a non-narcotic and a non-opioid, there is a large potential market in muslin countries, especially Saudi Arabia.

MVP has appointed regulatory experts to advise on seeking US FDA approval. It has also signed a licencing agreement with Nippon Zoki in Japan, who is now in discussion with regulatory authorities on the requirement for clinical trial data required to register in Japan. This is likely to take several years.



MVP has opportunities to increase penetration in existing markets through:

Product development – The imminent release of a smaller 1ml inhaler, which will provide pain relief for up to 30 minutes, compared to 60 to 90 minutes with the Standard 3ml inhaler. This will increase the scope of applications and markets for Penthrox, as well as appealing to the ambulance services.

Australian Opportunities – There are substantial opportunities beyond the ambulance services, where Penthrox is entrenched, mainly in:

Emergency Departments - supported by the UK study and the identified benefits in time and cost savings.

Colonoscopies - where a 250 patient colonoscopy study at the Royal Adelaide Hospital demonstrated the safety, efficacy and benefits in the procedural and recovery times of using Penthrox. This is a significant market, with over 500,000 colonoscopies performed annually in Australia, increasing at a rate of over 10% pa. Penetration of 20% of this market could generate revenue of over $1m pa. This is also applicable to larger markets such as the UK and Europe.

GPs and accepted procedures – Further growth in sales to GPs and other health professionals with the benefits from: changes in distribution; recognition of advantages in its use for dentistry and cosmetic surgery; and as a replacement or adjunct for other non-general anaesthetic, but painful procedures.

CSIRO Development Agreement - MVP has an agreement with the CSIRO to develop a new manufacturing technique to significantly improve the productivity and efficiency in production of Penthrox, with the benefits of increased production capacity and reduced cost to manufacture. The IP generated will be exclusive to MVP and will constitute a significant barrier to entry.

The CSIRO has successfully completed the 1st stage and is working on the final stage. We estimate that the process could reduce the current production costs by over a third, as well as ensuring sufficient capacity to meet the expansion into new markets.

Outlook suggests continued strong growth

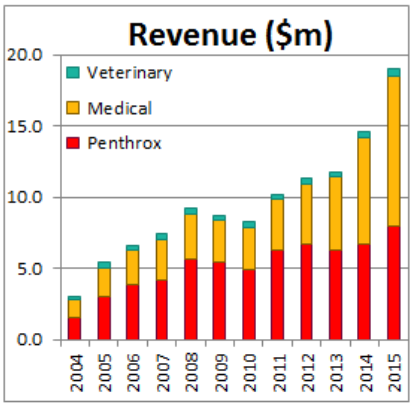
We have adjusted our forecasts for FY2014 and FY2015, mainly around:

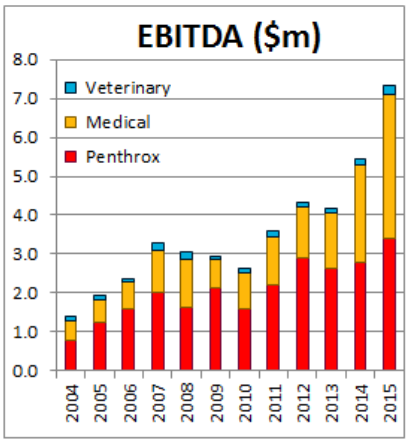
- A lower increase in Penthrox sales, with reduced purchases by ambulance services, faced with declining budgets. The release of the new small dosage and increased penetration of other markets will alleviate any further fall.
- An increase in sales of Medical Devices, with an escalation of sales in the UK , increased penetration in Europe and Canada, and initial sales in the US with expected FDA approval.
- A positive currency impact from a lower A$.

We now expect:

	Division	2012	2013	% ch	2014	% ch	2015	% ch
Revenue	Penthrox	6.6	6.3	-5.4	6.7	6.5	8.8	31.3
($m)	Medical	4.3	5.1	18.4	7.6	48.9	9.0	18.4
	Veterinary	0.4	0.3	-5.3	0.4	18.3	0.5	25.0
	Total	**11.3**	**11.7**	**3.7**	**14.7**	25.3	**18.3**	24.5
EBITDA	Penthrox	2.9	2.6	-9.7	2.8	7.0	3.7	32.1
($m)	Medical	1.3	1.4	10.6	2.5	73.0	3.4	36.0
	Veterinary	0.1	0.1	-2.8	0.2	42.9	0.2	46.7
	Corporate	-0.4	-0.8	74.4	-0.7	-16.5	-0.7	7.7
	Total	**3.9**	**3.4**	**-12.3**	**4.8**	41.7	**6.6**	37.9
Margin	Penthrox	43.6	41.6		41.8		42.0	
(%)	Medical	30.3	28.3		32.9		37.8	
	Veterinary	30.3	31.1		37.5		44.0	
	Total	34.2	28.7		32.7		36.2	10.8

Source: Veritas





FY2014 – A 41.8% increase in EBITDA on a 24.4% increase in Revenue, across:

Medical Devices – Continued rollout in Australia and Canada, increasing penetration into Europe, including a strong ramp-up in sales in the UK, and new countries in Asia.

While the US is expected to be a substantial market for MVP, given its size and incidence of Asthma and COPD, we have delayed inclusion to FY2015, as the timing of regulatory approval in FY2014 is uncertain.

Margins are expected to recover, with economies of scale and a plateauing of the cost base.

Penthrox – Modest growth in most areas, held back by lower sales to the ambulance services. Margins are expected to improve modestly with lower sourcing and processing costs.

Veterinary – A modest increase from a new anaesthetic machine and a positive currency effect.

FY2015 – Continued strong growth, with a 37.9% increase in EBITDA on a 31.9% increase in Revenue. The main drivers are:

- Continued growth in Medical Devices in existing countries and further geographical expansion. The US is expected to be a major contributor, especially if FNP can extend its relationship with GSK to the US.
- Expected regulatory approval of Penthrox in the EU and launch initially in the UK, followed by France, Netherlands, Germany, Switzerland. While we expect approval in further countries, these have not been included. The extent of the uplift will depend on timing of the approval.

However, these certainty of these forecasts rests around 3 integral inputs that are not currently predictable:

- The timing of the US approval for MVP's spacer and initial market acceptance.
- The timing of the EU approval of Penthrox.
- The revenue nature of distribution arrangements for Penthrox in Europe, such as development and regulatory cost re-imbursement, milestone payments and revenue split.

Valuation of $1.75, based on revised forecasts

VALUATION					
Valuation Method		2015		**Breakup Valuation**	
	Method	EBITDA ($m)	Multiple (x)	$m	¢ ps
Penthrox	EBITDA Multiple	3.5	9.0	32	54
Medical	EBITDA Multiple	3.1	9.0	28	48
Veterinary	EBITDA Multiple	0.2	5.0	1	2
EU Approval	EBITDA Multiple	20.0	2.0	40	69
Corporate	EBITDA Multiple	-1.0	3.0	-3	-5
Net Debt Adjustment				4	7
Valuation				101	175
Valuation			¢ ps	**1.75**	
Current Price			¢ ps	**149**	

We have a Sum of the Parts Valuation for MVP of $1.75 ps, comprising on:

- A valuation for the core Penthrox, Medical Devices and Veterinary operations of $61m ($1.06 ps), based on Enterprise Value to EBITDA ratios for Penthrox, Medical Devices and Veterinary of 8.5x, 9.0x and 5.0x. The core earnings valuation premium reflects the Profit Growth (past and future), Balance Sheet strength, market position and yield, but is still below our updated DCF valuation of $1.78 and a Dividend Discount Valuation of $1.53 ps.
- A valuation of $40m ($0.69 ps) for Penthrox in Europe is based on an EBITDA multiple of 2.0x for Year 2, assuming a launch in 1H FY2015 (See Appendix 1). This is based on the potential market and realisable earnings, using conservative assumptions and a substantial discounted. We expect partial recognition of the increased value with various milestones, such as lodging of the application with the MHRA, approval in key EU markets and subsequent approvals in new territories.

We believe this is conservative as it:

- Excludes the regulatory approval for Penthrox outside existing countries and Europe.
- Excludes regulatory approval and sales of medical devices (spacers) in the USA and other regions.
- Excludes any cost benefit from the CSIRO project.

Appendix 1 – European market for Penthrox

With a potential European market of over A$200m, and a EBITDA to Enterprise Value ratio of 2.0x, we have valued Europe entry at $40m. However, we believe this valuation is conservative, based on:

- Conservative penetration rates for Ambulance, Emergency Departments and Other Uses.
- Conservative EBITDA margins of 40%, compared to 43.6% in FY2012 and 41.6% for FY2013.
- A Discount Rate of 50% for the 3 initial launch countries and 75% for other Europe.
- No inclusion for subsequent regulatory approval in other countries, outside the key European countries.

Estimated European Market for Penthrox							Existing		
								FY2013	
Ambulance Services	**UK**	**France**	**Nether-lands**	**3 Country Total**	**Other Europe[3]**	**Europe Total**	**Australia**	**Others**	**Total**
Ambulance Callouts per year ('000)	7,000	8,500	400	15,900	20,500	36,400	1,650		
Potential Penthrox usage rate[1]	12.5%	12.5%	12.5%		12.5%		12.5%		
No units of Penthrox used ('000)	875	1,063	50	1,988	2,563	4,550	190		
Gross value at $40 per unit (A$m)	***35.0***	***42.5***	***2.0***	***79.5***	***102.5***	***182.0***	***9.5***		
Other Emergency Services[2]									
Emergency Department Walk-ins ('000)	17,500	21,500	1,000	40,000	47,833	87,833	3,000		
Potential Penthrox usage rate[1]	2.5%	2.5%	2.5%		2.5%		2.5%		
Units used ('000)	438	538	25	1000	800	1,800	75		
Gross value at $40 per unit (A$m)				***40.0***	***32.0***	***72.0***	***30***		
Other Uses[4]									
Units Used ('000)				650	800	1,450	15		
Gross value at $40 per unit (A$m)				**26**	**32.0**	**58.0**	**0.6**		
Total European market									
Units ('000)				3,638	4,163	7,800	220	100	320
Gross value at $40 per unit (A$m)				**145.5**	**166.5**	**312.0**	**8.8**	**4.0**	**12.8**
Market for MVP (at A$20 per unit)				**72.8**	**83.3**	**156.0**	**4.4**	**2.0**	**6.4**
EBITDA Margin				40%	40%	40%	43%	35%	43%
EBITDA				**29**	**33**	**62**	**1.9**	**0.7**	**2.6**
Discount rate				60%	75%				
Adjusted Operating Profit to MVP (A$m)				**11.6**	**8.3**	**20.0**	**1.9**	**0.7**	**2.6**

Source: Various UK and European publications & websites, MVP and Veritas Estimates (Other Europe)

[1] Assumes only 1 Penthrox Unit per callout/visit.

[2] Other Emergency Services includes Emergency admissions to hospitals, (UK 13.8m), St Johns volunteer ambulances (UK 1,200).

[3] Other Europe includes Germany, Switzerland, Belgium, Spain, Portugal, and Italy.

[4] Other Uses include sporting clubs, military, surgical and other healthcare applications (eg Dentistry, cosmetic surgery, colonoscopy).

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BUY – anticipated stock return is greater than 10%
SELL – anticipated stock return is less than -10%
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