Equity | Australia

11 December 2009

Produced by: RBS Equities (Australia) Limited

# Health Care

## Updating our currency forecasts

**We review the impact of changes to RBS's exchange rate forecasts on our healthcare universe. CSL, ISF, RMD and SHL's earnings are the most negatively affected of the healthcare stocks we cover.**

### Key recommendations & forecasts

| | Reuters | Year end | Recom | Price | Target price | Upside/ downside | EPS 1fcst | P/E 1fcst |
|---|---|---|---|---|---|---|---|---|
| Ansell | ANN.AX | Jun 2010 | Buy | A$10.15 | A$11.24 | 10.7% | 0.64 | 15.9 |
| Clinuvel | CUV.AX | Jun 2010 | Buy | A$0.29 | A$0.78 | 169.0% | -0.05 | -6.2 |
| Cochlear | COH.AX | Jun 2010 | Hold | A$64.57 | A$55.30 | -14.4% | 2.55 | 25.3 |
| CSL Ltd | CSL.AX | Jun 2010 | Hold | A$30.15 | A$34.10 | 13.1% | 1.82 | 16.5 |
| Healthscope | HSP.AX | Jun 2010 | Buy | A$4.70 | A$5.20 | 10.6% | 0.37 | 12.7 |
| iSOFT Group | ISF.AX | Jun 2010 | Buy | A$0.69 | A$0.93 | 34.8% | 0.05 | 14.6 |
| Mesoblast | MSB.AX | Jun 2010 | Hold | A$1.33 | A$1.21 | -9.0% | -0.10 | -13.7 |
| Primary Health | PRY.AX | Jun 2010 | Hold | A$5.54 | A$6.00 | 8.3% | 0.36 | 15.2 |
| Ramsay Health | RHC.AX | Jun 2010 | Hold | A$10.56 | A$10.40 | -1.5% | 0.78 | 13.5 |
| ResMed Inc | RMD.AX | Jun 2010 | Hold | A$5.72 | A$5.40 | -5.6% | 2.16 | 23.4 |
| Sonic Health | SHL.AX | Jun 2010 | Hold | A$14.58 | A$13.90 | -4.7% | 0.87 | 16.7 |

1. Normalised EPS - pre non-recurring items and post preference dividends.
Priced at close of business 10 December 2009.
Source: Company data, RBS forecasts

### Sector performance

| | (1M) | (3M) | (12M) |
|---|---|---|---|
| Absolute | 21.4 | 48.3 | 129.9 |
| Absolute (%) | 6.2 | 15.2 | 55.2 |
| Rel market (%) | 9.0 | 14.0 | 20.0 |

ASX All Ordinaries: 4622.90
BBG AP Health: 365.40
Source: Bloomberg

### Changes to currency affect most of the Australian healthcare stocks

In line with the new RBS house view, we have updated our exchange rate forecasts from FY10 onwards. The major exchange rates for the healthcare stocks in our coverage universe are: 1) AUD/USD – FY10F has increased to 0.89 (from 0.83); 2) AUD/EUR – FY10F has increased to 0.60 (from 0.59); and 3) EUR/USD – FY10F has increased to 1.48 (from 1.40). In terms of offshore earnings, we note Australian healthcare's niche offerings are generally in well-regulated industries that continue to show evidence of rational industry behaviour.

### FY10F – downgrades to earnings for CSL, ISF, RMD and SHL

Using our new exchange rate forecasts, for FY10F we downgrade EPS by 3.2% for COH, 5.3% for CSL, 5.9% for ISF, 4.4% for RMD and 1.6% for SHL. We also update our healthcare comparable multiples.

### Outlook unchanged for the healthcare stocks in our universe

For ANN, we highlight its defensive portfolio in consumer and professional divisions, but with cyclical leverage via the occupational division and improving global IP. We forecast ongoing growth for COH from the next-generation cochlear implant. For CSL, we forecast continued solid IVIG volume growth, with flat price growth in other plasma products. For RMD, we believe competition has eased in the obstructive sleep apnoea (OSA) market. We believe the market will remain interested in the realisation of synergies in SHL's offshore divisions and any possible further acquisitions. For PRY, over the medium term, we believe co-payment rates will increase in the pathology and medical centres businesses. For RHC, we forecast solid growth from brownfield opportunities in Australia and growth in the UK. For HSP, we forecast solid growth in its hospital and pathology businesses. As a result of earnings changes and updated comparables multiples, we change our target prices for ANN, CUV, COH, CSL, ISF, RHC, RMD and SHL. After its strong share price performance, we move to a Hold recommendation (from Buy) for MSB.


### Analysts

**Dr David Stanton**

**Andrew Hodge**

**Zara Lyons**

RBS Equities (Australia) Limited, ABN 84 002 768 701, AFS Licence 240530
Level 29, RBS Tower, 88 Phillip Street, Sydney NSW 2000, Australia

**http://www.abnamroresearch.com**

## Healthcare sector – updating our exchange rate forecasts

In line with changes to the RBS house view, we review the effect of revised exchange rate forecasts on the healthcare stocks in our coverage universe. The main negative impacts are seen on our earnings forecasts for CSL, ISF, RMD and SHL. In this note, we:

- present a summary of our new exchange rate forecasts; and
- review what this means for each of the stocks in turn.

### Summary – changes to earnings for the healthcare stocks

In terms of offshore earnings, we note Australian healthcare's niche offerings to the global healthcare industry are generally in well-regulated industries that continue to show evidence of rational industry behaviour. Favourable industry conditions and potential acquisitions provide the possibility of positive earnings surprises. Our new currency assumptions are shown below.

**Table 1 : Currency forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| AUD/USD | 0.83 | 0.89 | 7.1% | 0.79 | 0.87 | 10.5% | 0.75 | 0.84 | 11.9% |
| AUD/EUR | 0.59 | 0.60 | 1.8% | 0.60 | 0.64 | 7.2% | 0.60 | 0.65 | 8.2% |
| AUD/GBP | 0.51 | 0.54 | 7.2% | 0.48 | 0.53 | 10.5% | 0.46 | 0.51 | 11.9% |
| AUD/CHF | 0.89 | 0.91 | 3.0% | 0.88 | 0.92 | 3.7% | 0.91 | 0.96 | 5.4% |
| AUD/NZD | 1.24 | 1.27 | 2.5% | 1.25 | 1.35 | 7.6% | 1.21 | 1.35 | 11.6% |
| EUR/USD | 1.40 | 1.48 | 5.2% | 1.31 | 1.35 | 3.1% | 1.25 | 1.29 | 3.5% |
| CHF/USD | 1.07 | 1.03 | -3.8% | 1.13 | 1.06 | -6.2% | 1.22 | 1.15 | -5.8% |
| USD/GBP | 1.64 | 1.64 | -0.2% | 1.64 | 1.64 | 0.0% | 1.64 | 1.64 | 0.0% |

Source: RBS forecasts

We detail the changes to our EPS forecasts for companies under our coverage in the following table.

**Table 2 : Changes to EPS forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| ANN | A$0.64 | A$0.64 | 0.1% | A$0.73 | A$0.72 | -1.4% | A$0.88 | A$0.84 | -5.1% |
| COH | A$2.64 | A$2.55 | -3.2% | A$3.15 | A$2.91 | -7.5% | A$3.47 | A$3.16 | -8.7% |
| CSL | A$1.93 | A$1.82 | -5.3% | A$2.32 | A$2.09 | -9.9% | A$2.50 | A$2.23 | -10.8% |
| CUV | -A$0.05 | -A$0.05 | na | -A$0.02 | -A$0.02 | na | A$0.01 | A$0.01 | na |
| HSP | A$0.37 | A$0.37 | -0.1% | A$0.37 | A$0.37 | -0.4% | A$0.44 | A$0.44 | -0.5% |
| ISF | A$0.05 | A$0.05 | -5.9% | A$0.05 | A$0.05 | -10.7% | A$0.06 | A$0.05 | -11.8% |
| MSB | -A$0.10 | -A$0.10 | na | -A$0.09 | -A$0.09 | na | A$0.00 | -A$0.01 | na |
| PRY | A$0.36 | A$0.36 | 0.0% | A$0.42 | A$0.42 | 0.0% | A$0.48 | A$0.48 | 0.0% |
| RHC | A$0.78 | A$0.78 | 0.0% | A$0.91 | A$0.91 | 0.0% | A$1.08 | A$1.08 | 0.0% |
| RMD | US$2.26 | A$2.16 | -4.4% | US$2.64 | A$2.28 | -13.7% | US$3.10 | A$2.65 | -14.4% |
| SHL | A$0.88 | A$0.87 | -1.6% | A$1.01 | A$0.96 | -4.6% | A$1.11 | A$1.05 | -5.4% |

Source: RBS forecasts

In the next table we outline the sensitivities to the USD/AUD exchange rate of the Australian healthcare stocks in our universe.

**Table 3 : Change in reported profit to a US$0.01 increase in AUD/USD exchange rate**

| | FY10F | FY11F | FY12F |
|---|---|---|---|
| COH | -0.1% | -0.1% | -0.1% |
| CSL | -1.2% | -1.0% | -1.0% |
| RMD | -2.5% | -2.3% | -2.1% |
| SHL | -0.4% | -0.4% | -0.4% |

Source: RBS forecasts

We also include our valuation summary in the following table. For most of the healthcare companies that we cover we use a blend of three metrics to derive a valuation: DCF analysis, sum-of-the-parts on an EV/EBITDA basis and sum-of-the-parts on a normalised PE basis.

**Table 4 : Valuation, target price and risks summary**

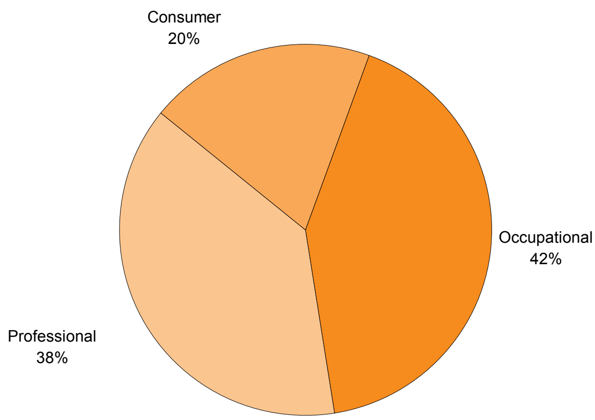
| Company | Ticker | Share price (A$) | Recom | Target price (A$) | Valuation methodology/Key risks |
|---|---|---|---|---|---|
| Ansell | ANN | 10.15 | Buy | 11.24 | Our valuation and target price are derived using a blended DCF, PE multiple and SOTP methodology (EV/EBIT). The key downside risks to our target price are: 1) significant increases to the company's COGS via sharp increases in latex, nitrile and vinyl; 2) an unexpected decrease in global industrial demand; and 3) poor inventory and cost management by the company. Upside risks include: 1) material value-accretive acquisitions; and 2) a softer AUD/USD exchange rate. |
| Cochlear | COH | 64.57 | Hold | 55.30 | We use a blend of DCF, normalised PE and capitalisation of EV/EBITDA valuation to derive our target price for COH. Downside risks to our target price include a faster-than-expected product release into the market from competitor Med-El in the US. Upside risks include faster-than-expected growth in cochlear implants or BAHA sales. |
| CSL Ltd | CSL | 30.15 | Hold | 34.10 | Our target price is set at a premium to our blended DCF, PE, EV/EBITDA valuation to account for potential upside from a possible global pharma bid. Downside risks to our target price relate to irrational industry behaviour leading to potential oversupply of IVIG, which in turn could lead to price weakness, and lower-than-expected HPV revenues from Merck. Upside could come from IVIG demand in Alzheimer's disease. |
| Clinuvel Pharmaceuticals | CUV | 0.29 | Buy | 0.78 | Our valuation of CUV is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of CUV's photoprotective technology, while downside risks include any delay or failure to progress clinical trials. |
| Healthscope | HSP | 4.70 | Buy | 5.20 | We use an even blend of DCF, EV/EBITDA and normalised PE to derive our target price. We use PE as it is a market standard and EV/EBITDA as this used widely in the global healthcare sector. Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from private health insurers. Downside risks include the expected ongoing increase in revenue from the hospital division not arising and margin compression in the pathology division. |
| iSOFT Group | ISF | 0.70 | Buy | 0.93 | Our target price is based on an even blended DCF, PE and EV/EBITDA valuation methodology. Upside risks to our target price include additional contract wins in its geographic jurisdictions and the successful delivery of Lorenzo to the UK NHS. Downside risks include increased competition from other healthcare IT providers and later-than-expected delivery of the UK Lorenzo software system. |
| Mesoblast | MSB | 1.33 | Hold | 1.21 | Our valuation of MSB is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of MSB's MPC technology, while downside risks include the lack of scalability of the manufacturing process. |
| Primary Health Care | PRY | 5.54 | Hold | 6.00 | We use an even blend of three methodologies to derive our valuation: DCF analysis, SOTP on an EV/EBITDA basis and SOTP on a normalised PE basis. Upside risks include greater-than-expected synergy capture from the SYB acquisition and reimbursement increases from public insurers in Australia. Downside risks include competition issues continuing in the Australian DI industry and a strong competitive response in PRY's pathology markets. |
| Ramsay Health Care | RHC | 10.56 | Hold | 10.40 | We use an even blend of DCF, capitalisation of EV/EBITDA and normalised PE multiples to derive our valuation and target price (PE valuation is a market standard and EV/EBITDA is used widely in the global healthcare sector). Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from the private health insurers, and an accretive acquisition. Downside risks include margin compression, particularly in the UK hospital business. |
| ResMed Inc | RMD | 5.72 | Hold | 5.40 | We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a target price for RMD. Downside risks are industry risk and the introduction of new entrants. Also, although the market appears attractive, high margins for all the major players mean there is a risk that another competitor could decrease the prices for its CPAP machines and masks to gain market share. Upside risks include a faster-than-expected rollout of home-diagnosis testing in the US market. |
| Sonic Healthcare | SHL | 14.58 | Hold | 13.90 | We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a valuation and target price for SHL. Downside risks to our target price include the expected increase in revenue from the UK pathology business not arising, and margin compression in the Australian pathology and diagnostic imaging businesses. Upside risks include accretive acquisitions. |

Priced at close of business 10 December 2009.
Source: RBS estimates

## ANN – Buy, target price A$11.24 (from A$11.73)

Ansell's reported currency is USD. Our valuation is USD based on the company's earnings profile in USD before a translation into AUD. The increase in our AUD/USD forecast does lower our target price as the valuation translation is a 100% effect, whereas earnings changes are muted by a mix of currencies as well as strength in ANN cost currencies (MYR, THB and INR) versus USD.

**Chart 1 : FY10F – ANN EBIT by division**




Source: RBS estimates

Changes to RBS currency forecasts noted on page 2 are offset by strength in ANN's cost currencies of MYR, THB and INR versus USD. Our FY12 forecast is reduced as we have brought our outer year forecast into line with RBS house forecasts versus a linear fade previously.

**Table 5 : ANN – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBITDA (US$m) | 140.0 | 140.1 | 0.0% | 158.0 | 156.3 | -1.1% | 182.4 | 174.7 | -4.2% |
| NPAT (US$m) | 87.4 | 87.5 | 0.2% | 99.4 | 98.0 | -1.4% | 119.7 | 113.6 | -5.0% |
| EPS (c) | 63.8 | 63.9 | 0.2% | 73.2 | 72.2 | -1.4% | 88.2 | 83.7 | -5.1% |
| DPS (c) | 28.0 | 28.0 | 0.0% | 28.5 | 28.5 | 0.0% | 29.0 | 29.0 | 0.0% |

Source: RBS estimates

As a result of currency changes (for valuation translation), earnings changes and updated comparables multiples, we change our target price for ANN. Our updated valuation methodology is shown below.

**Table 6 : ANN – valuation methodology**

| Metric | Weight | Valuation (US$ ps) | Blended valuation (A$ ps) |
|---|---|---|---|
| DCF valuation | 30% | 9.74 | 3.29 |
| PE valuation in line with Industrials (15.8x FY10) | 35% | 10.13 | 3.98 |
| SOTP | 35% | 10.10 | 3.97 |
| Blended equity valuation | 100% | | 11.24 |
| **Target price** | | | **11.24** |

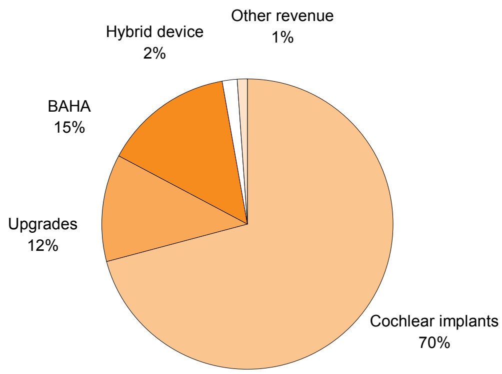
*PE and EV/EBIT multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## COH – Hold, target price A$55.30 (from A$56.10)

COH has received US Food and Drug Administration (FDA) approval for the two Premarket Approval (PMA) supplements covering the new Cochlear Nucleus 5 System. COH announced that the full system (which includes both implant and sound processor) was released in the US on 8 September 2009.

We believe uptake of the next-generation COH CI will be strong and we continue to forecast FY10 volume growth of 20%. Since listing, COH has launched the third-generation CI (Nucleus 24) and the fourth-generation (Freedom) CI systems. The average rate of volume growth over the five half-year periods following these launches was 23% compared with the long-term average of 17%. This suggests there is likely to be strong volume growth in COH CI after the release of a new COH cochlear implant platform; although we acknowledge volume growth is likely to be 2H10-weighted. The breakdown of COH revenue by product is shown below.

**Chart 2 : COH – revenues by product, FY10F**




Source: RBS forecasts

The changes to our FY10-12 forecasts are shown below.

**Table 7 : COH – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fcast | Actual | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (A$m) | 218.5 | 211.8 | -3.1% | 264.2 | 245.0 | -7.3% | 289.3 | 264.6 | -8.5% |
| NPAT (A$m) | 149.0 | 144.3 | -3.2% | 178.5 | 165.2 | -7.5% | 196.7 | 179.6 | -8.7% |
| Core NPAT (A$m) | 155.9 | 151.1 | -3.1% | 185.8 | 172.2 | -7.3% | 204.1 | 186.7 | -8.5% |
| EPS (c) | 263.5 | 255.2 | -3.2% | 314.7 | 291.2 | -7.5% | 346.6 | 316.5 | -8.7% |
| DPS (c) | 190.0 | 180.0 | -5.3% | 220.0 | 210.0 | -4.5% | 250.0 | 220.0 | -12.0% |
| Net op cash flow (A$m) | 117.2 | 119.6 | 2.0% | 151.1 | 151.5 | 0.2% | 194.9 | 183.4 | -5.9% |

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for COH. Our valuation methodology is shown below.

**Table 8 : COH – valuation methodology**

| Metric | Weight | Valuation (A$ ps) | Blended valuation (A$ ps) |
|---|---|---|---|
| DCF valuation | 40% | 71.71 | 28.69 |
| PE valuation* at (18.4x FY1) | 30% | 46.50 | 13.95 |
| EV/EBITDA valuation* at (10.8x FY1) | 30% | 42.12 | 12.64 |
| Blended equity valuation | 100% | | 55.27 |
| **Target price** | | | **55.30** |

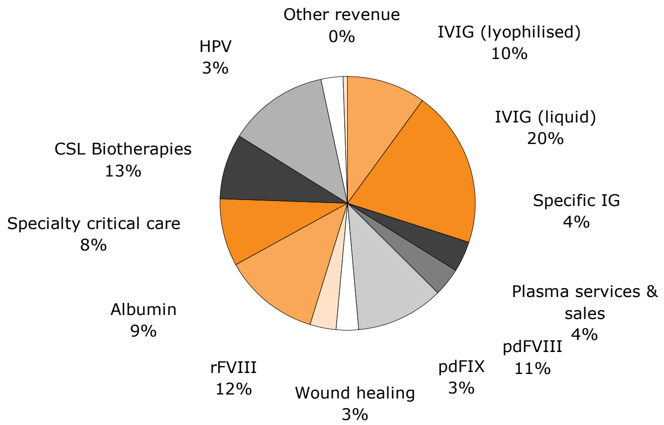
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## CSL – Hold, target price A$34.10 (from A$35.30)

Overall, we believe the product pipeline for CSL looks solid. One of the company's near-term projects is the approval of an additional 10m grams of Privigen liquid IVIG capacity, due in 2010. We believe liquid IVIG makes up 21% of FY10F revenue, and we estimate there is about 12mg of capacity for Privigen. Additional capacity will be used to service expected future demand.

CSL confirmed that the seasonal flu vaccine for next season will include the H1N1 (swine flu) vaccine as a subcomponent of the full vaccine. We believe CSL's FY10 capacity is about 20m seasonal flu vaccine doses. CSL stated that yields of swine-flu antigen are improving, which leads to potential volume upside when the vaccine is produced as part of the pandemic flu and as a sub-component of the seasonal flu. On our analysis, for every 10m increase in seasonal or H1N1 vaccines produced, CSL's FY10 EPS increases about 1.1%. We enclose revenues by product for CSL below.

**Chart 3 : CSL – revenue by product, FY10F**




Source: RBS forecasts

The changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

**Table 9 : CSL – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (A$m) | 1,408.3 | 1,335.9 | -5.1% | 1,612.2 | 1,492.6 | -7.4% | 1,710.1 | 1,568.7 | -8.3% |
| NPAT (A$m) | 1,103.6 | 1,049.5 | -4.9% | 1,234.6 | 1,145.9 | -7.2% | 1,331.4 | 1,224.3 | -8.0% |
| EPS (c) | 191.9 | 182.5 | -4.9% | 225.1 | 208.9 | -7.2% | 242.7 | 223.2 | -8.0% |
| DPS (c) | 67.0 | 64.0 | -4.5% | 79.0 | 73.0 | -7.6% | 85.0 | 78.0 | -8.2% |
| Net op cash flow (A$m) | 1,162.2 | 1,195.9 | 2.9% | 1,369.0 | 1,306.5 | -4.6% | 1,407.8 | 1,311.5 | -6.8% |

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for CSL. Our valuation methodology is shown below.

**Table 10 : CSL – valuation methodology**

| Metric | Weight | Valuation (A$ ps) | Blended valuation (A$ ps) |
|---|---|---|---|
| DCF valuation | 33% | 28.94 | 9.65 |
| PE valuation* at (16.4x FY1) | 33% | 31.70 | 10.57 |
| EV/EBITDA valuation* at (10.4x FY1) | 33% | 32.35 | 10.78 |
| Blended equity valuation | 100% | | 31.00 |
| Fair value | | | 31.00 |
| **Target price** | | | **34.10** |

*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## CUV – Buy, target price A$0.78 (from A$0.85)

We believe CUV has sufficient cash (A$40.4m in cash and other financial assets as at 30 June 2009) to fund its clinical programme.

CUV announced it had obtained positive results from a Phase II trial evaluating the photoprotective effect of its product, afamelanotide, in 16 patients who have the potential for phototoxicity (ie, sensitivity to UV light, which may lead to second-degree burns) as a side-effect of cancer therapy. A significant improvement in quality-of-life assessment was demonstrated at 60 days of treatment (p=0.02). No significant adverse events were reported.

CUV should receive final results from its Phase III erythropoietic protoporphyria (EPP) trial by end 4QCY09 and, subject to the successful completion of this trial, will seek EMEA marketing authorisation for afamelanotide for EPP. This would be the final regulatory step before the start of EU sales. Marketing authorisation is usually granted three to nine months after filing in the US and EU. CUV's timelines are shown below.

**Table 11 : CUV – updated timeline* for clinical trials and approvals**

| Date (CY) | Date (FY) | Trial | RBS comment |
|---|---|---|---|
| End 4QCY09 | End 2Q10 | Final result of EU/Australia Final Phase III EPP (CUV017) | Then EU regulatory review begins – likely to take three to nine months from filing date. Pending the Phase III results, filing date to be made public |
| End 4QCY09 | End 2Q10 | Interim result of interim EU Phase III PLE trial (CUV015) | Should provide insight into PLE clinical response |
| End 2QCY10 | End 4Q10 | Initiate Phase III EPP trial in US (pending FDA approval, CUV030) | Trial should be complete in six months |
| End 2QCY10 | End 4Q10 | Initiate Phase III SU trial in EU (CUV023) | Trial should be complete in four months |
| End 2QCY10 | End 4Q10 | Final result of EU Phase III PLE trial (CUV015) | Filing to be determined upon final results |
| 4QCY10 to end 1QCY11 | 2Q11 to end 3Q11 | Final results of Phase III SU trial in EU (CUV023) | Filing to be determined upon final results |
| 4QCY10 to end 1QCY11 | 2Q11 to end 3Q11 | EU regulatory approval – marketing authorisation EPP | Start EU revenues from EPP |
| 4QCY10 to end 1QCY11 | 2Q11 to end 3Q11 | US (FDA) regulatory filing for NDA – marketing authorisation EPP | Review time three to nine months (From filing date) – then start US revenues from EPP |
| 4QCY10 to end 1QCY11 | 2Q11 to end 3Q11 | Interim results Phase II AK/SCC in OTR (CUV011) | CUV to then evaluate results and determine whether to progress to Phase III |

*As at end November 2009.
Source: Company data, RBS estimates

The changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

**Table 12 : CUV – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (A$m) | -18.0 | -18.0 | 0.0 | -8.1 | -9.1 | -1.0 | 2.9 | 0.6 | -2.3 |
| NPAT (A$m) | -14.3 | -14.3 | 0.0 | -5.4 | -6.5 | -1.0 | 4.1 | 2.3 | -1.7 |
| EPS (c) | -4.7 | -4.7 | 0.0 | -1.8 | -2.1 | -0.3 | 1.3 | 0.8 | -0.6 |
| DPS (c) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net op cash flow (A$m) | -13.8 | -13.8 | 0.0 | -4.9 | -5.9 | -1.0 | 9.6 | 7.7 | -1.9 |

Source: RBS forecasts

As a result of earnings changes, we update our DCF-based valuation and target price for CUV.

**Table 13 : DCF valuation summary (A$m)**

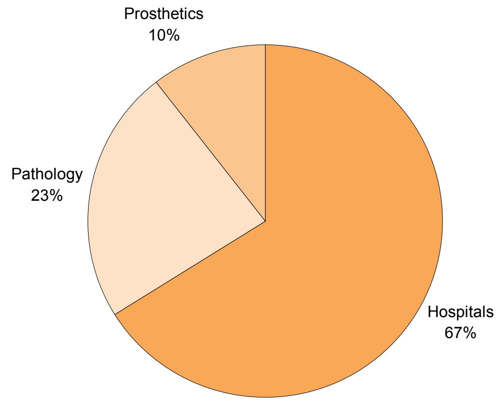
| | | | |
|---|---|---|---|
| Risk-free rate (Rf) | 6.5% | NPV cash flow | 24.6 |
| Market risk premium (Rm) | 4.5% | Minority interest | 0.0 |
| Equity beta (B) | 1.50 | Net debt | -21.7 |
| Ke = (Rf+(B*Rm)) | 13.2% | Investments | 0.0 |
| Kd | 8.5% | Equity market value | 236.2 |
| Equity (E/EV) | 100.0% | Diluted no. of shares (m) | 303.1 |
| Debt (D/EV) | 0.0% | **DCF valuation (A$)** | **0.78** |
| Tax rate (t) | 30.0% | **Target price (A$)** | **0.78** |
| WACC = E/EV*Ke+D/EV*Kd(1-t) | 13.2% | Current share price (A$) | 0.29 |
| Terminal growth rate | 5.0% | Potential upside to target price | 169.0% |

Source: RBS estimates

## HSP – Buy, target price unchanged at A$5.20

We believe strong growth in the volume of work in private hospitals will continue due to: 1) the ageing of the population; 2) ongoing pressures in the public sector; and 3) the shift to doing more day-surgery cases, hence increasing bed turnover. HSP management has identified greenfield and brownfield opportunities for its hospitals division. We assume an incremental EBIT contribution from most of these beds in FY10, with the balance contributing in FY11. In addition, management has estimated brownfield opportunities will increase bed stock by 10% over the next two to three years (ie, adding about 400 beds). There is continuing industry feedback that the listed pathology players have increased co-payment rates recently. From the start of FY10 we believe that, with all the listed players, if a doctor does not specify bulk-billing, the listed pathology company will default to private billing (away from the default option of bulk-billing).

**Chart 4 : HSP – revenue by division, FY10F**




Source: RBS forecasts

The changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

**Table 14 : HSP – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Prev** | **Rev** | **Diff** | **Prev** | **Rev** | **Diff** | **Prev** | **Rev** | **Diff** |
| EBIT (A$m) | 198.0 | 197.8 | -0.1% | 217.3 | 216.6 | -0.3% | 243.3 | 242.3 | -0.4% |
| NPAT (A$m) | 106.1 | 106.0 | -0.1% | 116.7 | 116.3 | -0.4% | 139.1 | 138.4 | -0.5% |
| EPS (c) | 37.1 | 37.1 | -0.1% | 37.3 | 37.1 | -0.4% | 44.4 | 44.2 | -0.5% |
| DPS (c) | 23.5 | 23.5 | 0.0% | 25.5 | 25.5 | 0.0% | 27.5 | 27.5 | 0.0% |
| Net op cash flow (A$m) | 176.2 | 175.9 | -0.2% | 194.0 | 193.2 | -0.4% | 224.2 | 222.9 | -0.6% |

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, our target price for HSP is unchanged. Our valuation methodology is shown below.

**Table 15 : HSP – changes to forecasts**

| Metric | Weight | Valuation (A$ per share) | Blended valuation (A$ per share) |
|---|---|---|---|
| DCF valuation | 33% | 5.90 | 1.97 |
| PE valuation* at (11.2x FY2) | 33% | 5.41 | 1.80 |
| EV/EBITDA valuation* at (6.1x FY2) | 33% | 4.21 | 1.40 |
| Blended equity valuation | 100% | | 5.18 |
| **Target price** | | | **5.20** |

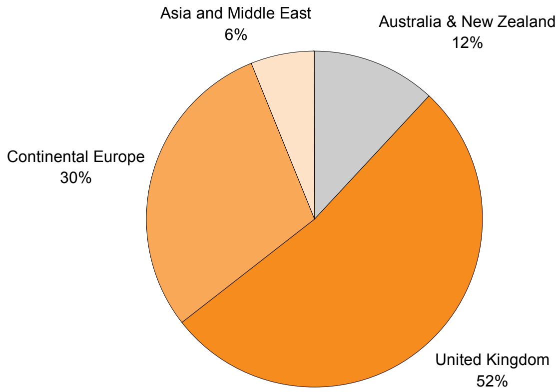
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## ISF – Buy, target price A$0.93 (from A$0.97)

As part of a UK pre-budget report, the UK Chancellor said in a recent interview that the some centralised parts of the NHS NPfIT programme were to be scaled back. Press reports suggest the centralised nature of the NHS's IT contracts (ie, centralised local-service-provider contracts) could be modified, but the existing contracts would be honoured.

We believe ISF is effectively a subcontractor to CSC. Should the LSPs be dismantled, we believe this could mean ISF would be able to sell directly into the UK NHS trusts, where it has 60% market share and therefore a first-mover advantage. We believe ISF's Lorenzo system is compatible with existing ISF products, unlike products from ISF's competitors, which would require the implementation of a new system and likely a larger capital outlay than for an ISF upgrade. We believe the barriers to exit for a health IT system are high.

**Chart 5 : ISF – revenue by division, FY10F**




Source: RBS forecasts

The changes to our FY10-12 forecasts due to our revised exchange rate forecasts are shown below.

**Table 16 : ISF – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (A$m) | 84.3 | 80.0 | -5.1% | 89.2 | 81.3 | -8.9% | 95.8 | 86.3 | -10.0% |
| NPAT (A$m) | 54.8 | 51.6 | -5.9% | 58.1 | 51.9 | -10.7% | 64.5 | 56.8 | -11.8% |
| EPS (c) | 5.0 | 4.7 | -5.9% | 5.3 | 4.7 | -10.7% | 5.8 | 5.1 | -11.8% |
| DPS (c) | 1.0 | 1.0 | 0.0% | 1.0 | 1.0 | 0.0% | 1.0 | 1.0 | 0.0% |
| Net op cash flow (A$m) | 115.4 | 108.6 | -5.9% | 123.7 | 111.9 | -9.5% | 134.9 | 121.7 | -9.7% |

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for ISF. Our valuation methodology is shown below.

**Table 17 : ISF – valuation methodology**

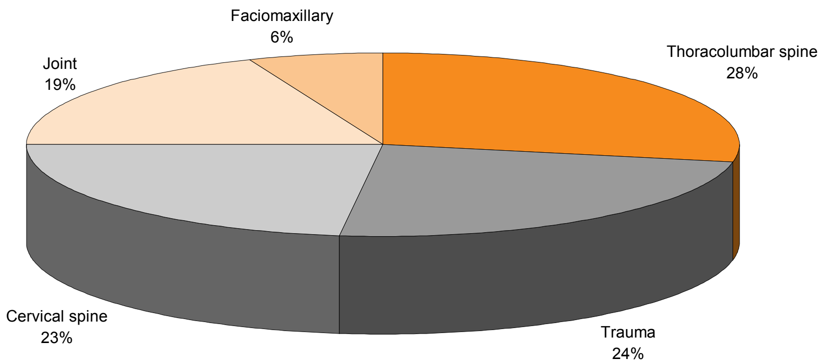
| Metric | Weight | Valuation (A$ per share) | Blended valuation (A$ per share) |
|---|---|---|---|
| DCF valuation | 33% | 0.59 | 0.20 |
| PE valuation* at (19.6x FY1) | 33% | 0.97 | 0.32 |
| EV/EBITDA valuation* at (9.9x FY1) | 33% | 1.24 | 0.41 |
| Blended equity valuation | 100% | | 0.93 |
| **Target price** | | | **0.93** |

*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## MSB – Hold (from Buy), target price unchanged at A$1.21

MSB announced it has received clearance from the US Food and Drug Administration (US FDA) for a Phase II clinical trial of its MPCs in minimally invasive lumbar spinal fusion surgery. The 24-patient trial, based at multiple US sites, compares the effectiveness and safety of two low doses of MSB's product, NeoFuse, with autograft (patient's own hip bone) in minimally invasive surgery for lumbar spine fusion. Previous pre-clinical trials of NeoFuse in minimally invasive spinal fusion surgery showed that a lower dose than has previously been used in the lumbar spine resulted in significantly earlier bony fusion over three to six months compared with autograft, with no safety issues. In July 2008, the US FDA issued a statement that the safety and effectiveness of rhBMP in the cervical spine had not been demonstrated and these products were not approved by the FDA for this use. We think the anterior interbody cervical spine fusion market for BMPs is worth about US$325m. As a result of the FDA decision, we believe there is currently no synthetic bone graft approved for anterior interbody cervical spine fusions. In the medium term, MSB's mesencymal precursor cells (MPCs) may address this gap in the market.

**Chart 6 : MSB – bone grafts performed in the US, 2006**




Source: Company data

The changes to our FY10-12 forecasts due to our revised exchange rate forecasts are shown below.

**Table 18 : MSB – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (A$m) | -11.0 | -11.0 | 0.0 | -12.4 | -12.4 | 0.0 | 1.8 | 0.3 | -1.5 |
| NPAT (A$m) | -13.2 | -13.2 | 0.0 | -14.5 | -14.5 | 0.0 | -0.1 | -1.6 | -1.6 |
| EPS (c) | -9.7 | -9.7 | 0.0 | -9.5 | -9.5 | 0.0 | -0.1 | -1.0 | -1.0 |
| DPS (c) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net op cash flow (A$m) | -10.7 | -10.7 | 0.0 | -12.2 | -12.2 | 0.0 | 3.4 | 1.8 | -1.7 |

Source: RBS forecasts

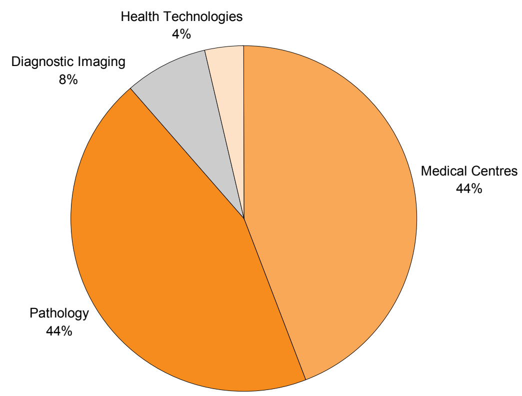
## PRY – Hold, target price unchanged at A$6.00

In the May 2009 Federal Budget the government changed the Patient Episode Reimbursement (PEI) scale from November 2009. Overall, there was a decline of up to 39.5% in reimbursement for one PEI item. The government previously forecast that this would lead to savings of up to A$74m (3.6% of Australian Medicare Pathology spend) for FY10F.

In the May 2009 Federal Budget, the government changed the pathology reimbursement scale. PRY management stated at its recent AGM that without any adjustments, this would cause EBITDA reduction of up to A$33m in FY09. In addition, PRY continues to lose market share in its Diagnostic Imaging (DI) division to independent DI practices.

PRY expects to grow EBITDA at a minimum of 15% pa in FY11 and FY12. We believe this is possible, and will likely be driven by: 1) greater-than-expected synergies – we believe best-case synergies from the SYB acquisition are A$129.3m; and 2) increasing co-payments and the return of volume growth – we believe pathology and medical centres are reasonably price inelastic. Hence, over the medium term, we believe co-payment rates will increase in the pathology and medical centres businesses.

**Chart 7 : PRY – EBIT by division, FY10F**




Source: RBS forecasts

We have made no changes to our FY10-12 forecasts resulting from our revised exchange rate forecasts. This is shown below.

**Table 19 : PRY – changes to forecasts**

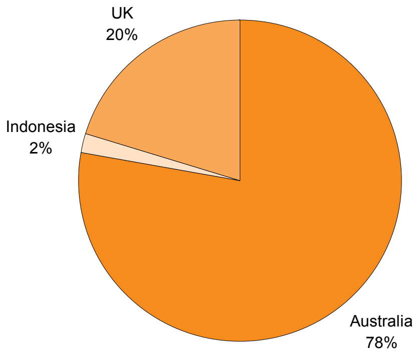
| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (A$m) | 329.2 | 329.2 | 0.0% | 366.3 | 366.3 | 0.0% | 399.2 | 399.2 | 0.0% |
| NPAT (A$m) | 171.1 | 171.1 | 0.0% | 203.5 | 203.5 | 0.0% | 230.6 | 230.6 | 0.0% |
| EPS (c) | 36.4 | 36.4 | 0.0% | 42.1 | 42.1 | 0.0% | 47.7 | 47.7 | 0.0% |
| DPS (c) | 35.0 | 35.0 | 0.0% | 21.0 | 21.0 | 0.0% | 24.0 | 24.0 | 0.0% |
| Net op cash flow (A$m) | 243.5 | 243.5 | 0.0% | 278.6 | 278.6 | 0.0% | 310.4 | 310.4 | 0.0% |

Source: RBS forecasts

## RHC – Hold, target price A$10.40 (from A$10.50)

We believe RHC offers solid, defensive earnings over the medium term. In terms of FY10 guidance, RHC management is targeting core NPAT growth of 12-14%. In the UK (21% of FY10F revenue) we forecast flat margin growth as we believe the impact of the UK recession will lead to decreasing numbers of higher-margin Private Medical Insurance admissions. RHC previously earmarked A$580m of net capital expenditure to fund a multi-year program of brownfield expansion in Australia intended to increase the number of hospital beds. Of this, A$300m has been spent. Management's target ROCE is up to 15% on these new beds. A significant EBIT contribution is likely to occur two to three years after the beds come on stream. Management said brownfield projects continue to pass through a heavy investment phase and made a positive contribution to EBIT in FY09. Our Australian brownfield bed assumptions are unchanged. In addition, RHC has previously invested A$60m to expand and improve UK facilities, slated to be completed by 2H11.

**Chart 8 : RHC – revenue by geography, FY10F**




Source: RBS forecasts

We made no changes to our FY10-12 forecasts resulting from our revised exchange rate forecasts. This is shown below.

**Table 20 : RHC – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (A$m) | 322.8 | 322.8 | 0.0% | 361.5 | 361.5 | 0.0% | 401.4 | 401.4 | 0.0% |
| NPAT pre CARES (A$m) | 160.6 | 160.6 | 0.0% | 190.3 | 190.3 | 0.0% | 218.2 | 218.2 | 0.0% |
| NPAT post CARES (A$m) | 148.4 | 148.4 | 0.0% | 184.6 | 184.6 | 0.0% | 218.2 | 218.2 | 0.0% |
| EPS pre CARES (c) | 84.9 | 84.9 | 0.0% | 94.0 | 94.0 | 0.0% | 107.7 | 107.7 | 0.0% |
| EPS post CARES (c) | 78.5 | 78.5 | 0.0% | 91.2 | 91.2 | 0.0% | 107.7 | 107.7 | 0.0% |
| DPS (c) | 40.0 | 40.0 | 0.0% | 46.0 | 46.0 | 0.0% | 54.0 | 54.0 | 0.0% |
| Net op cash flow (A$m) | 250.3 | 250.3 | 0.0% | 290.0 | 290.0 | 0.0% | 328.4 | 328.4 | 0.0% |

Source: RBS forecasts

As a result of updated comparables multiples, we change our target price for RHC. We provide our valuation methodology below.

**Table 21 : RHC – valuation methodology**

| Metric | Weight | Valuation (A$ per share) | Blended valuation (A$ per share) |
|---|---|---|---|
| DCF valuation | 33% | 13.34 | 4.45 |
| PE valuation* at (13.4x FY1) | 33% | 9.34 | 3.11 |
| EV/EBITDA valuation* at (7.2x FY1) | 33% | 8.54 | 2.85 |
| Blended equity valuation | 100% | | 10.41 |
| **Target price** | | | **10.40** |

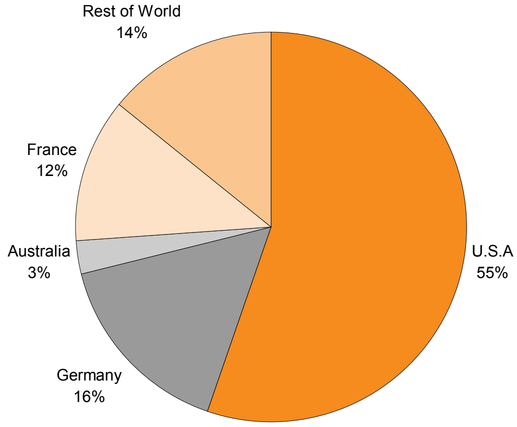
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## RMD – Hold, target price A$5.40 (from A$5.65)

We believe the US market is growing at 15-20% pa and that growth in the US is likely to continue throughout FY10 due to the growing awareness of the need for higher-margin autosetting devices in this region.

We continue to believe continuous positive airways pressure (CPAP) is the gold standard for obstructive sleep apnoea (OSA) treatment. However, a recent series of medical articles has demonstrated the efficacy of a new surgical treatment, originally designed to treat snoring, that may have a place in the treatment of mild-to-moderate OSA. This treatment is known as the Pillar Procedure and was originally developed by US-based Restore Medical. Restore Medical was acquired by Medtronic in July 2008 for US$29m. Over the longer term, we believe the growing popularity of this procedure could lead to it becoming a potential competitor to CPAP for the treatment of mild-to-moderate OSA. Industry feedback from ENT surgeons suggests the procedure has been seen as a treatment for mild-to-moderate OSA. Going forward, we will be watching for whether the Pillar Procedure becomes a competitive threat to RMD's sales of CPAP equipment.

**Chart 9 : RMD – revenue by geography, FY10F**




Source: RBS forecasts

The changes to our FY10-12 forecasts due to our revised forex forecasts are shown below.

**Table 22 : RMD – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prev | Rev | Diff | Prev | Rev | Diff | Prev | Rev | Diff |
| EBIT (US$m) | 228.7 | 218.3 | -4.5% | 263.4 | 226.7 | -14.0% | 306.9 | 262.1 | -14.6% |
| NPAT (US$m) | 172.4 | 164.9 | -4.4% | 200.1 | 172.9 | -13.6% | 234.5 | 201.0 | -14.3% |
| EPS (c) | 225.7 | 215.7 | -4.4% | 264.4 | 228.2 | -13.7% | 309.8 | 265.3 | -14.4% |
| DPS (c) | na | na | na | na | na | na | na | na | na |
| Net op cash flow (US$m) | 188.5 | 173.2 | -8.2% | 229.4 | 210.0 | -8.5% | 273.2 | 239.3 | -12.4% |

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, our target price for RMD has changed. This is shown below.

**Table 23 : RMD – valuation methodology**

| Metric | Weight | Valuation (US$ per share) | Blended (US$ per share) |
|---|---|---|---|
| PE valuation* at (15.4x FY2) | 33% | US$33.26 | US$11.09 |
| EV/EBITDA valuation* at (9.7x FY2) | 33% | US$39.19 | US$13.06 |
| DCF valuation | 33% | US$71.76 | US$23.92 |
| Blended equity valuation | 100% | | US$48.07 |
| **Blended equity valuation per CDI – ASX** | | | **A$5.40** |

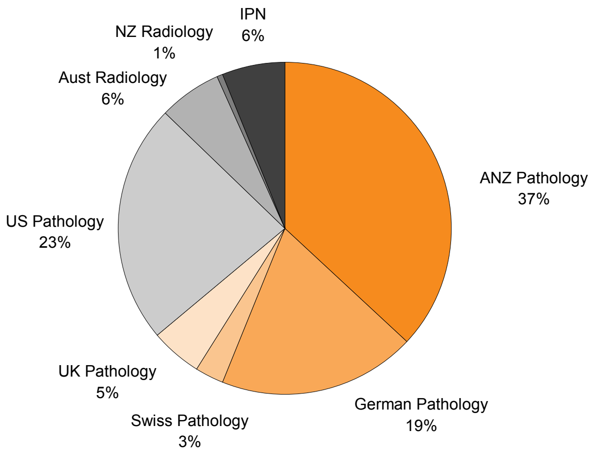
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## SHL – Hold, target price A$13.90 (from A$14.00)

SHL announced it has acquired East Side Clinical Lab, based in Providence, Rhode Island. East Side provides services throughout Rhode Island and parts of Southern Massachusetts, with current revenues of about US$30m pa. We estimate the purchase price equates to a prospective EV/EBITDA (pre-synergies) of about 6x (in line with a SHL's recent acquisition multiple for PML and Axiom Labs in the US).

Management states that East Side will provide the opportunity for synergy capture, in that it will be integrated into SHL's North-East division. SHL has provided no guidance on synergies, but we believe there is potential for synergies from at least group purchasing of pathology-testing consumables. We estimate these at US$1.3m pa at the EBITDA level from FY11, and we believe they will be ongoing. As a result of the inclusion of the acquisition in our forecasts, our EPS has increased 1.0% in FY10F and 1.7% in FY11F.

**Chart 10 : SHL – EBIT by division, FY10F**




Source: RBS forecasts

Changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

**Table 24 : SHL – changes to forecasts**

| | FY10F | | | FY11F | | | FY12F | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Prev** | **Rev** | **Diff** | **Prev** | **Rev** | **Diff** | **Prev** | **Rev** | **Diff** |
| EBIT (A$m) | 523.5 | 516.6 | -1.3% | 582.5 | 559.8 | -3.9% | 628.6 | 599.4 | -4.6% |
| NPAT (A$m) | 345.4 | 340.0 | -1.6% | 395.4 | 377.8 | -4.4% | 433.7 | 411.1 | -5.2% |
| EPS (c) | 88.4 | 87.0 | -1.6% | 100.6 | 96.2 | -4.4% | 110.4 | 104.6 | -5.2% |
| DPS (c) | 58.0 | 57.0 | -1.7% | 66.0 | 63.0 | -4.5% | 72.0 | 68.0 | -5.6% |
| Net op cash flow (A$m) | 444.1 | 441.1 | -0.7% | 495.3 | 479.7 | -3.1% | 544.4 | 519.5 | -4.6% |

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for SHL. We provide our valuation methodology below.

**Table 25 : SHL – valuation methodology**

| Metric | Weight | Valuation (A$ per share) | Blended valuation (A$ per share) |
|---|---|---|---|
| DCF valuation | 33% | 11.60 | 3.87 |
| PE valuation* at (19.2x FY1) | 33% | 16.79 | 5.60 |
| EV/EBITDA valuation* at (9.6x FY1) | 33% | 13.25 | 4.42 |
| Blended equity valuation | 100% | | 13.88 |
| **Target price** | | | **13.90** |

*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

## Table 26 : Healthcare comparables (rolling basis)

| Company name | RIC | Yr end | Currency | Mkt cap (Local m) | Mkt cap (US$m) | EV/EBITDA (x) Actual | EV/EBITDA (x) FY1 | EV/EBITDA (x) FY2 | EV/EBITDA (x) FY3 | P/E (x) Actual | P/E (x) FY1 | P/E (x) FY2 | P/E (x) FY3 | EPS growth (%) FY1 | EPS growth (%) FY2 | PEG 3Y CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Pharmaceuticals** | | | | | | | | | | | | | | | | |
| CSL - RBS | CSL.AX | Jun-10 | AUD | 18,298 | 17,042 | 9.7 | 9.0 | 8.0 | 7.6 | 17.6 | 15.3 | 13.1 | 12.4 | 15.1% | 16.4% | 1.2 |
| CSL - Consensus | CSL.AX | Jun-10 | AUD | 18,298 | 17,042 | 9.7 | 9.4 | 8.5 | 7.8 | 17.6 | 15.9 | 14.0 | 13.0 | 10.8% | 13.1% | 1.5 |
| Amgen | AMGN.OQ | Dec-09 | USD | 57,540 | 57,540 | 7.8 | 7.6 | 7.5 | 7.5 | 11.9 | 11.1 | 10.5 | 10.4 | 6.8% | 5.8% | 2.4 |
| AstraZeneca | AZN.N | Dec-09 | USD | 67,128 | 67,128 | 5.3 | 5.5 | 5.7 | 5.8 | 8.4 | 8.1 | 8.3 | 8.3 | 4.1% | -2.3% | 19.6 |
| Sanofi-Aventis | SASY.PA | Dec-09 | EUR | 69,573 | 103,587 | 5.8 | 5.7 | 5.8 | 5.8 | 9.5 | 8.3 | 8.2 | 8.2 | 14.2% | 0.7% | 1.7 |
| Baxter | BAX.N | Dec-09 | USD | 34,176 | 34,176 | 10.2 | 9.1 | 8.2 | 8.0 | 15.5 | 13.6 | 12.2 | 11.9 | 14.3% | 11.4% | 1.5 |
| Bayer | BAYG.F | Dec-09 | USD | 34,176 | 34,176 | 10.2 | 9.1 | 8.2 | 8.0 | 15.5 | 13.6 | 12.2 | 11.9 | 14.3% | 11.4% | 1.5 |
| Eli Lilly | LLY.N | Dec-09 | USD | 42,962 | 42,962 | 6.5 | 6.1 | 5.8 | 5.8 | 12.6 | 8.1 | 7.9 | 7.8 | 55.6% | 2.5% | 0.5 |
| Grifols S.A. | GRLS.MC | Dec-09 | EUR | 2,403 | 3,578 | 10.9 | 9.4 | 8.2 | 8.0 | 16.4 | 14.0 | 11.8 | 11.4 | 17.3% | 18.0% | 1.1 |
| GlaxoSmithKline | GSK.L | Dec-09 | GBP | 68,059 | 112,535 | 7.7 | 7.5 | 7.2 | 7.2 | 11.6 | 10.8 | 10.4 | 10.3 | 7.8% | 3.2% | 2.8 |
| Merck | MRK.N | Dec-09 | USD | 112,099 | 112,099 | 10.2 | 6.4 | 5.1 | 4.9 | 10.9 | 10.7 | 9.5 | 9.2 | 2.1% | 13.1% | 1.8 |
| Novo Nordisk | NOVOb.CO | Dec-09 | DKK | 199,226 | 39,862 | 11.2 | 10.7 | 9.8 | 9.5 | 19.4 | 16.9 | 15.0 | 14.7 | 14.7% | 12.4% | 1.7 |
| Pfizer | PFE.N | Dec-09 | USD | 149,206 | 149,206 | 5.4 | 4.4 | 4.1 | 4.1 | 10.1 | 8.5 | 8.0 | 7.9 | 18.8% | 6.0% | 1.0 |
| Roche | ROG.VX | Dec-09 | CHF | 146,118 | 144,250 | 10.4 | 9.6 | 8.9 | 8.8 | 14.4 | 12.8 | 11.7 | 11.5 | 12.1% | 9.7% | 1.6 |
| Wyeth | WYE.N | Dec-09 | USD | 67,274 | 67,274 | - | - | - | - | - | - | - | - | - | - | na |
| | | | | | **Ave** | **8.6** | **7.7** | **7.2** | **7.0** | **13.4** | **11.7** | **10.7** | **10.5** | **14.8%** | **8.1%** | |
| **Medical Devices** | | | | | | | | | | | | | | | | |
| Cochlear - RBS | COH.AX | Jun-10 | AUD | 3,617 | 3,303 | 17.8 | 14.7 | 12.6 | 11.9 | 26.5 | 23.1 | 19.8 | 18.5 | 14.7% | 16.5% | 1.8 |
| Cochlear - Consensus | COH.AX | Jun-10 | AUD | 3,617 | 3,303 | 17.8 | 14.9 | 12.7 | 11.7 | 26.5 | 23.1 | 19.6 | 17.8 | 14.7% | 17.7% | 1.6 |
| Boston Scientific | BSX.N | Dec-09 | USD | 12,869 | 12,869 | 8.0 | 7.5 | 7.0 | 6.9 | 94.1 | 14.6 | 12.2 | 11.7 | - | 20.4% | 0.1 |
| Johnson & Johnson | JNJ.N | Dec-09 | USD | 177,576 | 177,576 | 8.8 | 8.4 | 7.9 | 7.8 | 14.1 | 13.3 | 12.1 | 11.9 | 6.0% | 9.3% | 2.3 |
| Medtronic | MDT.N | Apr-10 | USD | 47,659 | 47,659 | 10.1 | 9.0 | 8.4 | 8.1 | 17.1 | 12.9 | 11.7 | 11.2 | 32.9% | 10.0% | 0.8 |
| St Jude | STJ.N | Jan-10 | USD | 12,301 | 12,301 | 9.9 | 8.9 | 8.0 | 7.8 | 17.4 | 13.9 | 12.4 | 12.1 | 25.1% | 12.1% | 1.1 |
| Stryker | SYK.N | Dec-09 | USD | 20,607 | 20,607 | 9.2 | 8.7 | 7.9 | 7.7 | 17.8 | 16.2 | 14.4 | 14.1 | 10.0% | 12.3% | 2.0 |
| Synthes | SYST.VX | Dec-09 | CHF | 15,971 | 15,767 | 10.6 | 9.7 | 8.8 | 8.6 | 20.2 | 18.0 | 16.1 | 15.7 | 12.2% | 11.8% | 2.1 |
| Zimmer | ZMH.N | Dec-09 | USD | 12,547 | 12,547 | - | 8.0 | 7.6 | 7.5 | 15.3 | 14.0 | 12.7 | 12.4 | 8.9% | 10.6% | |
| | | | | | **Ave** | **10.6** | **9.4** | **8.5** | **8.3** | **27.8** | **15.8** | **13.9** | **13.4** | **15.7%** | **13.0%** | |
| **Sleep Apnea** | | | | | | | | | | | | | | | | |
| Resmed - RBS | RMD.AX | Jun-10 | AUD | 3,917 | 3,917 | 14.2 | 12.1 | 10.5 | 9.5 | 26.2 | 22.1 | 18.9 | 16.9 | 18.3% | 17.1% | 1.4 |
| Resmed (NY) - Consensus | RMD.N | Jun-10 | USD | 3,917 | 3,917 | 14.2 | 11.9 | 10.1 | 9.0 | 26.2 | 21.1 | 17.5 | 14.9 | 24.2% | 20.6% | 1.0 |
| Fisher & Paykel - RBS | FPH.NZ | Mar-10 | NZD | 1,682 | 1,202 | 14.9 | 13.8 | 11.9 | 11.0 | 25.9 | 23.7 | 20.0 | 18.1 | 9.4% | 18.6% | 1.9 |
| Fisher & Paykel - Consensus | FPH.NZ | Mar-10 | NZD | 1,676 | 1,202 | 14.7 | 13.4 | 11.5 | 10.6 | 25.9 | 23.1 | 19.3 | 17.5 | 12.3% | 19.8% | 1.6 |
| Covidien Ltd. | COV.N | Sep-09 | USD | 23,612 | 23,612 | 9.4 | 8.7 | 7.9 | 7.9 | 14.2 | 12.9 | 11.6 | 11.6 | 10.3% | 11.8% | 1.8 |
| | | | | | **Ave** | **12.8** | **11.3** | **9.8** | **9.2** | **22.1** | **19.0** | **16.1** | **14.7** | **15.6%** | **17.4%** | |
| **Pathology & Radiology** | | | | | | | | | | | | | | | | |
| Sonic Healthcare - RBS | SHL.AX | Jun-10 | AUD | 5,562 | 5,035 | 11.4 | 10.4 | 9.4 | 8.9 | 16.6 | 15.6 | 13.8 | 13.0 | 6.7% | 12.6% | 1.8 |
| Sonic Healthcare - Consensus | SHL.AX | Jun-10 | AUD | 5,562 | 5,035 | 11.4 | 10.6 | 9.7 | 9.1 | 16.6 | 15.6 | 14.1 | 13.1 | 6.3% | 11.1% | 1.9 |
| Primary Health Care - RBS | PRY.AX | Jun-10 | AUD | 2,616 | 2,395 | 11.1 | 9.8 | 8.9 | 8.3 | 18.4 | 15.4 | 13.4 | 12.3 | 19.1% | 15.1% | 1.1 |
| Primary Health Care - Consensus | PRY.AX | Jun-10 | AUD | 2,616 | 2,395 | 10.6 | 9.0 | 8.3 | 7.9 | 18.4 | 13.8 | 12.6 | 11.7 | 32.9% | 10.2% | 0.8 |
| Healthscope - RBS | HSP.AX | Jun-10 | AUD | 1,245 | 1,140 | 9.1 | 7.9 | 7.1 | 6.6 | 13.6 | 13.0 | 12.3 | 10.9 | 4.4% | 5.6% | 1.7 |
| Healthscope - Consensus | HSP.AX | Jun-10 | AUD | 1,245 | 1,140 | 8.0 | 7.2 | 6.5 | 6.1 | 15.8 | 13.4 | 12.2 | 11.0 | 17.2% | 10.1% | 1.1 |
| Alliance Imaging, Inc. | AIQ.N | Dec-09 | USD | 310 | 310 | 4.9 | 4.8 | 4.8 | 4.8 | 22.5 | 22.5 | 22.1 | 27.2 | -0.2% | 1.7% | na |
| CML Healthcare Income Fund | CLC_u.TO | Dec-09 | CAD | 1,225 | 1,166 | 10.6 | 9.8 | 9.6 | 9.2 | 11.8 | 11.0 | 10.8 | 14.1 | 7.7% | 2.0% | -1.9 |
| Bio-Reference Laboratories, Inc. | BRLI.OQ | Oct-09 | USD | 464 | 464 | 10.3 | 8.9 | 7.5 | 7.4 | 23.6 | 20.1 | 19.9 | 16.0 | 17.9% | 0.9% | na |
| Genoptix, Inc. | GXDX.OQ | Dec-09 | USD | 640 | 640 | 10.5 | 8.0 | 7.6 | 6.4 | 22.4 | 20.5 | 19.8 | 16.3 | 9.5% | 3.1% | 1.8 |
| Laboratory Corp | LH.N | Dec-09 | USD | 7,758 | 7,758 | 8.1 | 7.7 | 7.6 | 7.0 | 15.5 | 13.8 | 13.5 | 12.2 | 12.2% | 2.3% | 1.7 |
| Quest Diagnostics | DGX.N | Dec-09 | USD | 10,769 | 10,769 | 8.5 | 8.1 | 8.0 | 7.5 | 15.6 | 14.2 | 13.9 | 12.6 | 10.3% | 1.7% | 1.9 |
| RadNet Inc. | RDNT.OQ | Dec-09 | USD | 77 | 77 | 5.4 | 5.0 | 5.0 | 5.2 | - | 8.4 | 7.3 | 7.3 | - | 14.4% | na |
| | | | | | **Ave** | **8.7** | **7.8** | **7.4** | **7.0** | **17.3** | **14.8** | **14.0** | **13.9** | **12.0%** | **6.3%** | |
| **Hospitals** | | | | | | | | | | | | | | | | |
| Ramsay Healthcare - RBS | RHC.AX | Jun-10 | AUD | 2,150 | 1,969 | 8.4 | 7.8 | 7.1 | 6.6 | 14.6 | 13.3 | 11.4 | 10.1 | 9.9% | 16.8% | 1.0 |
| Ramsay Healthcare - Consensus | RHC.AX | Jun-10 | AUD | 2,150 | 1,969 | 8.3 | 7.7 | 7.0 | 6.5 | 14.6 | 13.8 | 12.1 | 10.6 | 6.0% | 13.8% | 1.2 |
| Healthscope - RBS | HSP.AX | Jun-10 | AUD | 1,245 | 1,140 | 9.1 | 7.9 | 7.1 | 6.6 | 13.6 | 13.0 | 12.3 | 10.9 | 4.4% | 5.6% | 1.7 |
| Healthscope - Consensus | HSP.AX | Jun-10 | AUD | 1,245 | 1,140 | 8.0 | 7.2 | 6.5 | 6.1 | 13.6 | 13.4 | 12.2 | 11.0 | 1.1% | 10.1% | 1.9 |
| Community Health Systems | CYH.N | Dec-09 | USD | 2,821 | 2,821 | 7.2 | 6.8 | 6.5 | 6.5 | 12.0 | 10.6 | 9.5 | 9.3 | 13.7% | 11.4% | 1.0 |
| Health Mgt Ass. | HMA.N | Dec-09 | USD | 1,632 | 1,632 | 6.9 | 6.6 | 6.3 | 6.3 | 11.4 | 12.3 | 11.0 | 10.8 | -7.6% | 11.7% | 1.2 |
| Kindred Healthcare, Inc. | KND.N | Dec-09 | USD | 602 | 602 | 2.4 | 2.4 | 2.6 | 2.6 | 10.2 | 11.7 | 10.3 | 9.9 | -12.8% | 13.2% | 6.8 |
| Lifepoint Hospitals | LPNT.OQ | Dec-09 | USD | 1,603 | 1,603 | 6.3 | 6.0 | 5.8 | 5.8 | 11.7 | 11.2 | 10.4 | 10.2 | 4.9% | 7.6% | 10.7 |
| Southern Cross Healthcare Group | SCHE.L | Sep-09 | GBP | 204 | 337 | 3.8 | 3.8 | 3.5 | 3.5 | 6.0 | 5.8 | 5.1 | 5.1 | 5.0% | 13.4% | 2.4 |
| Universal Health Serv | UHS.N | Dec-09 | USD | 2,776 | 2,776 | 5.8 | 5.5 | 5.4 | 5.3 | 12.3 | 11.3 | 10.8 | 10.6 | 9.3% | 4.8% | 2.4 |
| | | | | | **Ave** | **6.1** | **5.7** | **5.4** | **5.3** | **11.5** | **11.3** | **10.2** | **9.7** | **2.4%** | **10.8%** | |
| **Consumer** | | | | | | | | | | | | | | | | |
| Sigma - RBS | SIP.AX | Jan-10 | AUD | 1,158 | 1,052 | 6.5 | 6.1 | 5.8 | 5.7 | 12.6 | 11.7 | 10.4 | 10.3 | 8.2% | 11.9% | 1.6 |
| Sigma - Consensus | SIP.AX | Jan-10 | AUD | 1,158 | 1,052 | 6.5 | 6.3 | 5.9 | 5.8 | 12.6 | 10.5 | 9.8 | 9.6 | 19.8% | 7.3% | 1.1 |
| Blackmores - RBS | BKL.AX | Jun-10 | AUD | 343 | 311 | 11.0 | 9.9 | 9.3 | 8.9 | 16.2 | 15.8 | 14.7 | 13.9 | 2.6% | 7.4% | 3.0 |
| Blackmores - Consensus | BKL.AX | Jun-10 | AUD | 343 | 311 | 11.0 | 9.9 | 9.2 | 8.7 | 16.2 | 15.1 | 13.9 | 13.2 | 7.4% | 8.9% | 2.1 |
| NBTY Inc | NTY.N | Sep-10 | USD | 2,653 | 2,653 | 8.6 | 7.0 | - | - | 18.3 | 12.2 | 11.3 | 11.4 | 50.0% | 8.1% | 0.7 |
| USANA Health Sciences, Inc. | USNA.OQ | Jan-10 | USD | 485 | 485 | 8.6 | 7.8 | - | - | 15.5 | 13.6 | 11.9 | 11.5 | 14.1% | 14.5% | 1.3 |
| Yakult Honsha | 2267.T | Mar-10 | JPY | 477,129 | 5,304 | - | - | - | - | 42.3 | 47.8 | 38.8 | 32.1 | -11.6% | 23.1% | 4.9 |
| Roche | ROG.VX | Dec-09 | CHF | 146,118 | 144,250 | 10.4 | 9.6 | 8.9 | 8.8 | 14.4 | 12.8 | 11.7 | 11.5 | 12.1% | 9.7% | 1.6 |
| Daiichi Sankyo | 4568.T | Mar-10 | JPY | 1,256,519 | 13,969 | 8.7 | 8.2 | 7.3 | 6.8 | -16.4 | 22.4 | 17.7 | 16.3 | - | 26.2% | -0.1 |
| Eisai | 4523.T | Mar-10 | JPY | 943,057 | 10,484 | 7.7 | 7.4 | 7.7 | 8.1 | 16.9 | 14.9 | 15.8 | 16.7 | 13.3% | -5.5% | 35.4 |
| | | | | | **Ave** | **8.8** | **8.0** | **7.8** | **7.6** | **15.0** | **18.7** | **16.4** | **15.3** | **15.0%** | **11.5%** | |
| **Pharmacy** | | | | | | | | | | | | | | | | |
| Aust Pharma - RBS | API.AX | Aug-10 | AUD | 320 | 257 | 4.8 | 4.2 | 3.8 | 3.7 | 9.3 | 11.3 | 9.1 | 8.3 | -17.1% | 24.3% | 2.9 |
| Aust Pharma - Consensus | API.AX | Aug-10 | AUD | 320 | 257 | 4.8 | 4.4 | 3.9 | 3.7 | 9.3 | 11.3 | 10.0 | 8.9 | -17.1% | 13.4% | 6.8 |
| Sigma - RBS | SIP.AX | Jan-10 | AUD | 1,158 | 1,052 | 6.5 | 6.1 | 5.8 | 5.7 | 12.6 | 11.7 | 10.4 | 10.3 | 8.2% | 11.9% | 1.6 |
| Sigma - Consensus | SIP.AX | Jan-10 | AUD | 1,158 | 1,052 | 6.5 | 6.3 | 5.9 | 5.8 | 12.6 | 10.5 | 9.8 | 9.6 | 19.8% | 7.3% | 1.1 |
| CVS pharmacy | CVS.N | Dec-09 | USD | 43,388 | 43,388 | 7.0 | 6.7 | 6.4 | 6.3 | 12.1 | 11.3 | 10.3 | 10.1 | 7.4% | 9.7% | 1.8 |
| Walgreens Co | WAG.N | Aug-09 | USD | 37,437 | 37,437 | 7.6 | 6.6 | 5.9 | 6.0 | 15.8 | 13.5 | 11.5 | 11.7 | 17.4% | 16.9% | 1.3 |
| Amerisource Bergen Corp (ABC) | ABC.N | Sep-09 | USD | 7,107 | 7,107 | 7.0 | 6.6 | 6.2 | 6.2 | 13.0 | 11.9 | 10.7 | 10.8 | 9.5% | 10.7% | 1.8 |
| Cardinal Health | CAH.N | Jun-10 | USD | 11,657 | 11,657 | 5.7 | 8.4 | 7.7 | 7.3 | 11.3 | 15.6 | 14.1 | 13.1 | -27.5% | 10.1% | -3.3 |
| McKesson | MCK.N | Mar-10 | USD | 16,331 | 16,331 | 7.0 | 6.2 | 5.9 | 5.7 | 16.1 | 13.1 | 12.0 | 11.4 | 23.3% | 9.1% | 1.1 |
| Shoppers Drug Mart | SC.TO | Dec-09 | CAD | 9,382 | 8,931 | 9.6 | 8.7 | 7.8 | 7.6 | 16.1 | 14.7 | 13.1 | 12.7 | 9.6% | 12.3% | 1.8 |
| Rite Aid | RAD.N | Feb-10 | USD | 1,163 | 1,163 | 9.2 | 7.7 | 7.0 | 6.8 | -1.0 | -3.1 | -5.6 | -7.3 | -69.4% | -43.8% | na |
| | | | | | **Ave** | **7.2** | **6.8** | **6.3** | **6.2** | **11.7** | **11.0** | **9.5** | **9.0** | **-3.0%** | **5.1%** | |
| **Aged Care** | | | | | | | | | | | | | | | | |
| Abano Healthcare Group Limited | ABA.NZ | May-10 | NZD | 139 | 100 | 4.8 | 5.7 | 5.4 | 4.8 | 16.4 | 20.9 | 16.1 | 12.3 | -21.6% | 29.7% | 2.1 |
| Care UK | CUK.L | Sep-09 | GBP | 199 | 330 | 6.4 | 7.0 | 7.0 | 6.8 | 9.4 | 9.7 | 9.7 | 9.1 | -3.2% | 0.0% | 8.8 |
| Orpea | ORP.PA | Dec-09 | EUR | 1,161 | 1,729 | 16.6 | 14.0 | 12.3 | 11.9 | 22.3 | 19.3 | 16.5 | 15.9 | 15.8% | 17.2% | 1.6 |
| Sunrise Senior Living | SRZ.N | Dec-09 | USD | 169 | 169 | - | - | - | - | - | - | - | - | - | - | na |
| | | | | | **Ave** | **9.3** | **8.9** | **8.2** | **7.8** | **16.1** | **16.7** | **14.1** | **12.5** | **-3.0%** | **15.6%** | |
| **Health IT** | | | | | | | | | | | | | | | | |
| Isoft - RBS | ISF.AX | Jun-10 | AUD | 758 | 678 | 6.8 | 6.3 | 5.9 | 5.6 | 16.9 | 14.4 | 13.5 | 12.5 | 17.6% | 6.6% | 1.4 |
| Isoft - Consensus | ISF.AX | Jun-10 | AUD | 758 | 678 | 6.8 | 6.6 | 6.2 | 6.0 | 16.9 | 11.7 | 10.8 | 10.3 | 44.6% | 8.4% | 0.6 |
| GBST Holdings - RBS | GBT.AX | Jun-10 | AUD | 71 | 58 | 6.8 | 5.8 | 5.7 | 5.6 | 13.3 | 12.5 | 11.7 | 11.5 | 6.0% | 6.9% | 2.5 |
| GBST Holdings - Consensus | GBT.AX | Jun-10 | AUD | 71 | 58 | 6.8 | 5.8 | 5.7 | 5.6 | 13.3 | 12.5 | 11.7 | 11.5 | 6.0% | 6.8% | 2.5 |
| Iress Market Technology - RBS | IRE.AX | Dec-09 | AUD | 956 | 875 | 10.1 | 9.2 | 8.4 | 8.2 | 17.0 | 15.3 | 13.9 | 13.6 | 10.8% | 10.5% | 2.0 |
| Iress Market Technology - Consens | IRE.AX | Dec-09 | AUD | 956 | 875 | 10.1 | 11.0 | 10.1 | 9.8 | 17.0 | 17.8 | 16.3 | 15.9 | -4.7% | 9.6% | 8.2 |
| Technology One - RBS | TNE.AX | Sep-09 | AUD | 249 | 227 | 8.8 | 8.0 | 6.9 | 7.0 | 15.1 | 13.7 | 11.7 | 11.7 | 10.6% | 17.2% | 1.5 |
| Technology One - Consensus | TNE.AX | Sep-09 | AUD | 249 | 227 | 8.8 | 7.7 | 6.7 | 6.8 | 15.1 | 12.9 | 11.2 | 11.2 | 17.6% | 14.8% | 1.2 |
| Pro Medicus Limited | PME.AX | Jun-09 | AUD | 80 | 73 | 8.9 | 7.7 | 6.9 | 7.1 | 14.2 | 12.1 | 10.8 | 11.1 | 17.4% | 12.6% | 1.4 |
| McKesson Corporation | MCK.N | Mar-10 | USD | 16,331 | 16,331 | 7.0 | 6.2 | 5.9 | 5.7 | 16.1 | 13.1 | 12.0 | 11.4 | 23.3% | 9.1% | 1.1 |
| Cerner Corporation | CERN.OQ | Jan-10 | USD | 6,304 | 6,304 | 12.9 | 11.4 | 10.1 | 9.8 | 33.3 | 29.0 | 23.2 | 22.1 | 14.9% | 24.7% | 2.0 |
| Allscripts Healthcare Solutions, Inc | MDRX.OQ | Dec-09 | USD | 2,932 | 2,932 | 23.5 | 17.1 | 13.7 | 13.1 | 38.4 | 28.3 | 23.6 | 22.7 | 35.4% | 20.1% | 1.5 |
| Eclipsys Corporation | ECLP.OQ | Dec-09 | USD | 1,119 | 1,119 | 16.0 | 11.5 | 9.3 | 8.9 | 22.6 | 28.8 | 22.3 | 21.1 | -21.4% | 28.9% | na |
| | | | | | **Ave** | **11.2** | **9.5** | **8.3** | **8.1** | **20.8** | **18.5** | **15.8** | **15.3** | **14.8%** | **15.0%** | |

Priced at close 10 December 2009.
Source: RBS estimates where indicated, otherwise Reuters consensus estimates

## Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside. Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Distribution of recommendations

The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

### Long Term recommendations (as at 11 Dec 2009)

| | Global total (IB%) | Asia Pacific total (IB%) |
|---|---|---|
| Buy | 610 (10) | 397 (1) |
| Add | 0 (0) | 0 (0) |
| Hold | 403 (6) | 224 (0) |
| Reduce | 0 (0) | 0 (0) |
| Sell | 113 (0) | 72 (0) |
| Total (IB%) | 1126 (7) | 693 (0) |

Source: ABN AMRO

### Trading recommendations (as at 11 Dec 2009)

| | Global total (IB%) | Asia Pacific total (IB%) |
|---|---|---|
| Trading Buy | 6 (0) | 6 (0) |
| Trading Sell | 1 (0) | 1 (0) |
| Total (IB%) | 7 (0) | 7 (0) |

Source: ABN AMRO

## Valuation and risks to target price

**Ansell (RIC: ANN.AX, Rec: Buy, CP: A$10.15, TP: A$11.73)**: Our valuation and target price are derived using a blended DCF, PE multiple and SOTP methodology (EV/EBIT). The key downside risks to our target price are: 1) significant increases to the company's COGS via sharp increases in latex, nitrile and vinyl; 2) an unexpected decrease in global industrial demand; and 3) poor inventory and cost management by the company. Upside risks include: 1) material value-accretive acquisitions; and 2) a softer AUD/USD exchange rate.

**Clinuvel Pharmaceuticals (RIC: CUV.AX, Rec: Buy, CP: A$0.290, TP: A$0.85)**: Our valuation of CUV is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of CUV's photoprotective technology, while downside risks include any delay or failure to progress clinical trials.

**Cochlear (RIC: COH.AX, Rec: Hold, CP: A$64.57, TP: A$56.10)**: We use an even blend of DCF, normalised PE and capitalisation of EV/EBITDA valuation to derive our target price for COH. Downside risks to our target price include a faster-than-expected product release into the market from competitor Med-El in the US. Upside risks include faster-than-expected growth in cochlear implants or BAHA sales.

**CSL Ltd (RIC: CSL.AX, Rec: Hold, CP: A$30.15, TP: A$35.30)**: Our target price is set at a premium to our blended DCF, PE, EV/EBITDA valuation to account for potential upside from a possible global pharma bid. Downside risks to our target price relate to irrational industry behaviour leading to potential oversupply of IVIG, which in turn could lead to price weakness, and lower-than-expected HPV revenues from Merck. Upside could come from IVIG demand in Alzheimer's disease.

**Healthscope (RIC: HSP.AX, Rec: Buy, CP: A$4.70, TP: A$5.20)**: We use an even blend of DCF, EV/EBITDA and normalised PE to derive our target price. We use PE as it is a market standard and EV/EBITDA as this used widely in the global healthcare sector. Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from private health insurers. Downside risks include the expected ongoing increase in revenue from the hospital division not arising and margin compression in the pathology division.

**iSOFT Group (RIC: ISF.AX, Rec: Buy, CP: A$0.695, TP: A$0.97)**: Our target price is based on an even blended DCF, PE and EV/EBITDA valuation methodology. Upside risks to our target price include additional contract wins in its geographic jurisdictions and the successful delivery of Lorenzo to the UK NHS. Downside risks include increased competition from other healthcare IT providers and later-than-expected delivery of the UK Lorenzo software system.

**Mesoblast (RIC: MSB.AX, Rec: Buy, CP: A$1.330, TP: A$1.21)**: Our valuation of MSB is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of MSB's MPC technology, while downside risks include the lack of scalability of the manufacturing process.

**Primary Health Care (RIC: PRY.AX, Rec: Hold, CP: A$5.54, TP: A$6.00)**: We use an even blend of three methodologies to derive our valuation: DCF analysis, SOTP on an EV/EBITDA basis and SOTP on a normalised PE basis. Upside risks include greater-than-expected synergy capture from the SYB acquisition and reimbursement increases from public insurers in Australia. Downside risks include competition issues continuing in the Australian DI industry and a strong competitive response in PRY's pathology markets.

**Ramsay Health Care (RIC: RHC.AX, Rec: Hold, CP: A$10.56, TP: A$10.50)**: We use an even blend of DCF, capitalisation of EV/EBITDA and normalised PE multiples to derive our valuation and target price (PE valuation is a market standard and EV/EBITDA is used widely in the global healthcare sector). Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from the private health insurers, and an accretive acquisition. Downside risks include margin compression, particularly in the UK hospital business.

**ResMed Inc (RIC: RMD.AX, Rec: Hold, CP: A$5.72, TP: A$5.65)**: We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a target price for RMD. Downside risks are industry risk and the introduction of new entrants. Also, although the market appears attractive, high margins for all the major players mean there is a risk that another competitor could decrease the prices for its CPAP machines and masks to gain market share. Upside risks include a faster-than-expected rollout of home-diagnosis testing in the US market.

**Sonic Healthcare (RIC: SHL.AX, Rec: Hold, CP: A$14.58, TP: A$14.00)**: We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a valuation and target price for SHL. Downside risks to our target price include the expected increase in revenue from the UK pathology business not arising, and margin compression in the Australian pathology and diagnostic imaging businesses. Upside risks include accretive acquisitions.

## Regulatory disclosures

Subject companies: **ANN.AX, CUV.AX, COH.AX, CSL.AX, HSP.AX, ISF.AX, MSB.AX, PRY.AX, RHC.AX, RMD.AX, SHL.AX**

ABN AMRO Morgans Limited was a broker to the placement of shares by CSL Limited in August 2008 and received fees in this regard.**: CSL.AX**

ABN AMRO Morgans was a Co-Lead Manager and Underwriter of the placement of shares in IBA Health Limited and received fees in this regard.**: ISF.AX**

ABN AMRO Morgans Limited was a participating broker to the placement of shares in Primary Health Care Limited in February 2008 and received fees in this regard.**: PRY.AX**

RBS Morgans Limited was a participating broker to the Sonic Healthcare Limited placement in November 2008 and may receive fees in this regard.**: SHL.AX**

ABN AMRO is appointed by IBA Health Limited as financial advisor for the acquisition of iSOFT Plc. **: ISF.AX**

ABN AMRO is mandated in a lead role in facilitating the rights issue for IBA Health Limited in the offer for ISOFT Group, and will earn a fee for this role.**: ISF.AX**

ABN AMRO is appointed by IBA Health as Joint Lead Manager, Joint Bookrunner and Underwriter up to $124 million equity raising, comprising a 2 for 7 accelerated non-renounceable pro-rata entitlement offer. **: ISF.AX**

## Global disclaimer



This material was prepared by the ABN AMRO affiliate named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Australia: Any report referring to equity securities is distributed in Australia by RBS Equities (Australia) Limited (ABN 84 002 768 701, AFS Licence 240530) ("RBS Equities"), a participant of the ASX Group. Research produced by Craigs Investment Partners Limited is distributed outside New Zealand by RBS Equities and its associated companies under the strategic alliance between the two groups of companies. Any report referring to fixed income securities is distributed in Australia by ABN AMRO Bank NV (Australia Branch) (ABN 84 079 478 612, AFS Licence 238266). Australian investors should note that this document was prepared for wholesale investors only.

Brazil: This document was not elaborated by securities analysts registered at Comissao de Valores Mobiliarios - CVM. Investors resident in Brazil who receive this report should rely only on research prepared by research analysts registered at CVM. In addition to other representations contained in this report, research analysts who prepared this report state that the views expressed and attributed to them accurately reflect solely and exclusively their personal opinions about the subject securities and issuers and/or other subject matter as appropriate, having such opinion(s) been produced freely and independently from any party, including from The Royal Bank of Scotland or any of its affiliates.

Canada: The securities mentioned in this material are available only in accordance with applicable securities laws and many not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: ABN AMRO Bank N.V. is authorised and regulated in the Netherlands by De Nederlandsche Bank. In addition, ABN AMRO Bank N.V., Copenhagen Branch is subject to local supervision by Finanstilsynet, the Danish Financial Supervisory Authority. All analysts located in Denmark follow the recommendations from the Danish Securities Dealers Association.

Finland: ABN AMRO Bank N.V. is authorised and regulated in the Netherlands by De Nederlandsche Bank. In addition, ABN AMRO Bank N.V., Helsinki Branch is subject to local supervision by Rahoitustarkastus, the Finnish Financial Supervision Authority.

Hong Kong: This document is being distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs"). Any recipient of this document wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of ABN AMRO Bank NV.

Indonesia: PT. RBS Asia Securities Indonesia is a subsidiary undertaking of The Royal Bank of Scotland Group plc.

Italy: Persons in Italy requiring further information should contact ABN AMRO Bank N.V. Milan Branch.

Japan: This report is being distributed in Japan by ABN AMRO Securities Japan Ltd to institutional investors only.

Malaysia: ABN AMRO research, except for economics and FX research, is not for distribution or transmission into Malaysia.

New Zealand: This document is distributed in New Zealand by Craigs Investment Partners Limited, an NZX accredited firm. Craigs Investment Partners Limited and/or its partners and employees may, from time to time, have a financial interest in respect of some or all of the matters discussed.

Russia: The Russian securities market is associated with several substantial risks, legal, economic and political, and high volatility. There is a relatively high measure of legal uncertainty concerning rights, duties and legal remedies in the Russian Federation. Russian laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Russian securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Russian securities may be affected by fluctuations in available currency rates and exchange control regulations.

Singapore: Any report referring to equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited (RCB Regn No. 198703346M) to clients who fall within the description of persons in Regulation 49 of the Securities and Futures (Licensing and Conduct of Business) Regulations and Regulations 34 and 35 of the Financial Advisers Regulations. Investors should note that this material was prepared for accredited investors only. Recipients who do not fall within the description of persons under Regulation 49 of the Securities and Futures (Licensing and Conduct of Business) Regulations or Regulations 34 and 35 of the Financial Advisers Regulations should seek the advice of their independent financial advisor prior to taking any investment decision based on this document or for any necessary explanation of its contents. The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited is a subsidiary undertaking of The Royal Bank of Scotland Group plc.

Sweden: ABN AMRO Bank N.V. is authorised and regulated in the Netherlands by De Nederlandsche Bank. In addition, ABN AMRO Bank N.V., Stockholm Branch is subject to local supervision by the Swedish Financial Supervisory Authority.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by ABN AMRO Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

United Kingdom: All research is distributed by ABN AMRO Bank NV, London Branch, which is authorised by De Nederlandsche Bank. The investments and services contained herein are not available to private customers in the United Kingdom.

UAE and Qatar: This report is produced by ABN AMRO N.V and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

United States: Except for any documents relating to foreign exchange, FX or global FX, distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of to RBS Securities Inc, 600 Washington Blvd, Stamford, CT 06901, +1 203 897 2700.

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The Royal Bank of Scotland plc is authorised and regulated in the UK by the Financial Services Authority.

---

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

---

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at www.abnamroresearch.com.

Disclosures regarding companies covered by ABN AMRO group can be found on ABN AMRO's research website at www.abnamroresearch.com.

ABN AMRO's policy on managing research conflicts of interest can be found at https://www.abnamroresearch.com/Disclosure/Disclosure.AspX?MI=5.

**Should you require additional information please contact the relevant ABN AMRO research team or the author(s) of this report**.