

26 March 2009

CustomVis

| Year End | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | PE (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|--------|-----------|
| 06/07 | 0.9 | (1.4) | (1.8) | 0.0 | N/A | N/A |
| 06/08 | 1.2 | (1.4) | (1.5) | 0.0 | N/A | N/A |
| 06/09e | 1.7 | (1.2) | (0.7) | 0.0 | N/A | N/A |
| 06/10e | 3.2 | 0.0 | 0.0 | 0.0 | N/A | N/A |

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. FY08 currency gain of £2.4m and half year £0.46m are excluded, as non-cash items.

Investment summary: Interim results

CustomVis's interim results contained no surprises after the recent trading update.

The company noted that it has installed two lasers since the period end, suggesting five or six installations are possible in H2 (the six months to June 2009), compared to seven in H1. However, sales tend to be lumpy and could rise. A currency gain of £0.46m was booked. Cash was £0.63m and the company needs to manage this carefully with minimal H2 outflow.

Revenues in line with expectations

Revenues in H1 reflect the seven units installed with two high value sales in the EU accounting for £300k. Expenses have risen and additional sales costs reflect new personnel which are expected to start in H2; this should pay off with higher revenues.

H2 positive operational cash flow needed

Cash was £625K after H1 cash outflow of £878k. Cash flows do not follow the balance sheet due to currency adjustments. It is critical in H2 that working capital is positive to offset the real £376k UK tax bill from the accountancy profit in FY08. Installations in H2 do not generate much immediate cash so the key is reducing inventory and debtors and any real currency effects.

Medium-term diversification prospects

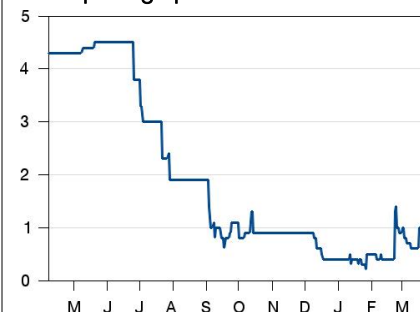
The retinal camera and presbyopia indications could be very important from FY10. Management are evaluating contract manufacturing and Australian distributorships to generate cash but these are 2010 onwards pay offs.

Valuation: Cash flow is now key

We assume sales of 13 installed units in FY09, which indicates reported sales on constant currency of £1.7m. As currencies have badly distorted cash flows, DCF valuation is not reliable. On a prospective sales multiple of 2x, a value of £3-4m may be indicated but cash management is now the key variable.

Price 0.65p
Market Cap £1m

Share price graph



Share details

Code CUS
Listing AIM
Sector Health Care Equipment & Services
Shares in issue 169.2m

Price

52 week High 4.62p Low 0.29p

Balance Sheet as at 31 December 2008

Debt/Equity (%) N/A
NAV per share (p) 1.9
Net cash (£m) 0.6

Business

CustomVis designs, builds and sells innovative lasers for high-end custom eye surgery. Based in Australia, its sales are in Asia and emerging countries; EU sales are now developing at 35% of revenues.

Valuation

| | 2008 | 2009e | 2010e |
|--------------|------|-------|-------|
| P/E Relative | N/A | N/A | N/A |
| P/CF | N/A | N/A | N/A |
| EV/Sales | N/A | N/A | N/A |
| ROE | N/A | N/A | N/A |

Geography based on H1 revenues

| | AUS | Europe | US | Other |
|--|-----|--------|----|-------|
| | 12% | 35% | 0% | 53% |

Analyst

Dr John Savin 020 3077 5713
jsavin@edisoninvestmentresearch.co.uk

Exhibit 1: Financials

| Year end 30 June | £'000 | 2007 IFRS | 2008 IFRS | 2009e IFRS | 2010e IFRS |
|---|-------|----------------|----------------|----------------|----------------|
| PROFIT & LOSS | | | | | |
| Revenue | | 881 | 1,161 | 1,734 | 3,212 |
| Cost of Sales | | (483) | (533) | (580) | (784) |
| Gross Profit | | 398 | 629 | 1,154 | 2,427 |
| EBITDA | | (1,628) | (1,563) | (1,316) | (90) |
| Operating Profit (before GW and except.) | | (1,494) | (1,448) | (1,201) | 25 |
| Goodwill Amortisation | | 0 | 0 | 0 | 0 |
| Exceptionals | | 0 | 2,481 | 462 | 0 |
| Other | | 0 | 0 | 0 | 0 |
| Operating Profit | | (1,494) | 1,033 | (739) | 25 |
| Net Interest | | 55 | 23 | 10 | 5 |
| Profit Before Tax (norm) | | (1,438) | (1,425) | (1,191) | 30 |
| Profit Before Tax (FRS 3) | | (1,438) | 1,056 | (729) | 30 |
| Tax | | 0.0 | (397.6) | 0.0 | 1.0 |
| Profit After Tax (norm) | | (1,438) | (1,823) | (1,191) | 32 |
| Profit After Tax (FRS 3) | | (1,438) | 659 | (729) | 31 |
| Average Number of Shares Outstanding (m) | | 80.1 | 117.9 | 169.2 | 169.1 |
| EPS - normalised (p) | | (1.8) | (1.5) | (0.7) | 0.0 |
| EPS - FRS 3 (p) | | (1.8) | 0.6 | (0.4) | 0.0 |
| Dividend per share (p) | | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | | 45.2 | 54.1 | 66.5 | 75.6 |
| EBITDA Margin (%) | | N/A | N/A | N/A | N/A |
| Operating Margin (before GW and except.) (%) | | N/A | N/A | N/A | N/A |
| BALANCE SHEET | | | | | |
| Fixed Assets | | 217 | 145 | 95 | 95 |
| Intangible Assets | | 0 | 0 | 0 | 0 |
| Tangible Assets | | 217 | 145 | 95 | 95 |
| Investment in associates | | 0 | 0 | 0 | 0 |
| Current Assets | | 2,939 | 4,547 | 3,616 | 4,574 |
| Stocks | | 1,118 | 1,510 | 1,200 | 1,100 |
| Debtors | | 923 | 1,464 | 1,855 | 2,962 |
| Cash | | 897 | 1,493 | 516 | 467 |
| Current Liabilities | | (619) | (1,336) | (1,119) | (2,046) |
| Creditors | | (619) | (1,336) | (1,119) | (2,046) |
| Short term borrowings | | 0 | 0 | 0 | 0 |
| Long Term Liabilities | | (140) | 0 | 0 | 0 |
| Long term borrowings | | 0 | 0 | 0 | 0 |
| Other long term liabilities | | (140) | 0 | 0 | 0 |
| Net Assets | | 2,397 | 3,356 | 2,593 | 2,623 |
| CASH FLOW | | | | | |
| Operating Cash Flow | | (1,707) | (1,891) | (962) | (4) |
| Net Interest | | 55 | 23 | 10 | 5 |
| Tax | | 0 | 0 | 0 | 0 |
| Capex | | (72) | (5) | (25) | (50) |
| Acquisitions/disposals | | 0 | 0 | 0 | 0 |
| Financing | | 1,384 | 2,470 | 0 | 0 |
| Dividends | | 0 | 0 | 0 | 0 |
| Net Cash Flow | | (340) | 596 | (977) | (49) |
| Opening net debt/(cash) | | (1,238) | (897) | (1,493) | (516) |
| HP finance leases initiated | | 0 | 0 | 0 | 0 |
| Other | | 0 | (0) | 0 | 0 |
| Closing net debt/(cash) | | (897) | (1,493) | (516) | (467) |

Source: Company accounts/Edison Investment Research

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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