

# Immunodiagnostic System Holdings – QuickView

14 July 2010

<b>Event</b>	<b>Management present</b>
Preliminary results	CEO, COO, FD

## Investment summary: Highly rated bet

Strong growth continues with organic sales increasing by £10.9m (up 43%) giving £37.16m overall (including £1.3m currency). FDA approval of iSYS on 29 June now enables direct targeting of automated system competitors in the key US market. Diasorin is the main US competitor. The share price reflects the excellent growth prospects, but the price is running ahead of the company's realistic ability to deliver to City timings. The 2010 P/E without R&D capitalisation would be 62x.

## Manual Vit D drove FY10, US auto to drive FY11-13

Manual Vitamin D tests (Vit D) had sales of £22m up 72% helped by a £1.3m currency gain perhaps 60% organic. Automated systems (iSYS) were £2.7m: 7% of revenues with 43 sales, including 20 OEM. With reagent rental placements, there are 74 iSYS each generating £77k per year in test sales. US sales of iSYS are key to FY11-12 strong growth. Products other than iSYS and Vit D gave 7% growth to £12.5m showing the dependence on the VitD and iSYS categories.

## Acquire, or be acquired – speculative prospects?

Is IDS an acquisition candidate; it looks fully valued? It would give an immediate entry to the bone metabolism testing market, but bigger players would need to revalidate IDS kits for their automated platforms. Smaller players, like Bio-Rad (\$2.4bn market cap), would get immediate synergies. IDS itself could buy other product lines; Axis-Shield is worth £120m, but is outside IDS's strategic zone.

## Consensus estimates: Strong iSYS growth likely, but when?

In FY10, IDS sales rose 35% in the EU and RoW, which underpins FY11 growth. Broker forecasts indicate caution in relation to the timing of US iSYS placements and sales may be slower to build than City bulls expect; we expect more impact in FY12 than FY11. Roche and Siemens are in the market or about to launch tests. Tests for chronic kidney disease have a five-year horizon.

## Valuation: Strong prospects, but a bet on US iSYS growth

EV/sales is 6.2x 2010, 4.6x 2011e. The stock is on a 2010 P/E of 28x, 19x 2011e. FY10 EPS without R&D capitalisation (£4.5m) would be c 13p, but IDS did have £2.4m of depreciation on plant and goodwill. The shares performed well after the results announcement but are now pricing in substantial short-term expectations.

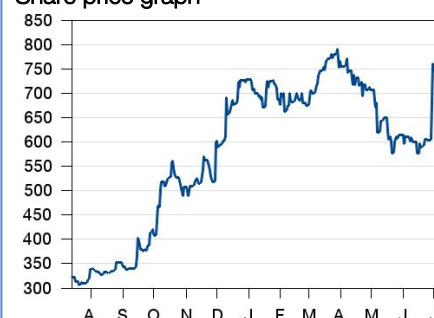
## Consensus estimates

Year End	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/10	37.1	10.99	28.9	2.0	27.7	0.25
03/11e	46.6	16.0	42.5	3.0	18.8	0.38
03/12e	55.8	19.3	51.1	4.0	15.6	0.50

Note: FY10 capitalised R&D of £4.5m increased EPS by 17p. Depreciation was £2.4m.  
Source: Brewin Dolphin. EPS are fully diluted

**Price** 800p  
**Market Cap** £223m

Share price graph



### Share details

Code IDH  
Listing AIM  
Sector Healthcare Equipment & Services  
Shares in issue 27.85m

### Business

Immunodiagnostic Systems (IDS) develops, and sells in vitro diagnostic tests for bone and cartilage. It has an automated system, iSYS. Most sales come from a manual "stored" Vitamin D test. The complex active Vitamin D test (with two hydroxyl groups) is manual but may be automated by FY12. Other tests have been developed.

### Bull

- Wider test menu for iSYS since March 10 gives better sales potential.
- FDA test iSYS and automated Vit D test announced on 29 June 2010.
- Possible M&A play following FDA validation but high valuation.

### Bear

- Share price has shown tendency to run ahead on bullish City expectations.
- Instrument sales and placement rates can be slow after initial early adopters have acquired systems. US uptake rate unclear.
- EPS stated after £4.5m of R&D capitalised, inflates EPS by 134%.

### Analysts

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