

18 July 2011
Equity Research

MORNING NOTE

Buy 44p
(Remains Unchanged) (Priced at close 15/7/11)

Target Price: 80p

Stock Codes: AVIAA.L / AVIA LN

Panmure Gordon EPS Estimates

Mar 2010 A -5.24p

Mar 2011 E -2.56p

Mar 2012 E 4.79p

Market Cap: £3m

Last published research 10 June 2011

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Avia Health Informatics

Broadens the sales ecosystem

Avia strengthens its sales ecosystem, with a new relationship with K3 Healthcare – this significantly expands Avia’s geographic reach (K3 Healthcare operates in 20 countries), and has the right target market – it is focused on healthcare in “remote and isolated places”, so should be ‘spot on’ for Avia’s software clinical decision support tools. K3 has over 30 years’ experience and looks a very good fit for Avia. We are not changing our forecasts. We expect Avia to announce final results shortly (year ended March) so we are not amending our estimates now. Ahead of this we highlight that Avia shares are trading on a very undemanding EV/EBITDA of 7.3x and a P/E of 9.1x for 2012E (FY ended March).

■ **Avia/K3 Healthcare tie-up.** Avia announces that it has signed a non-exclusive partnership agreement with K3 Healthcare / the Institute of Remote Healthcare to promote the Odyssey to providers of remote healthcare. K3 HealthCare is billed as a leading provider of Remote Healthcare solutions, and is the commercial arm of the Institute of Remote HealthCare, an independent academic organisation devoted to the improvement of healthcare for those in remote and isolated places. K3 Healthcare has over 30 years’ experience in over 20 different countries across the world. The partnership will mean K3, IRHC and Avia collaborate in developing Odyssey clinical decision support software sales opportunities to remote healthcare organisations.

■ **Who are the clients?** The tie-up with K3 Healthcare significantly broadens Avia’s international footprint. K3 Healthcare clients include several international government departments including the following countries: Nigeria, Qatar, Dubai, Abu Dhabi, Brazil, Ghana, Morocco, Cyprus, Kosovo, Spain, Kenya. Clients include International Oil and Gas Companies; Public and Private Hospitals; International Government Ministries of Health; EMS providers; Occupational Health organisations; Emergency Pre Hospital Medical Providers; Remote Medical Services Providers; Disaster Medical Management organisations; International Aid Agencies; Ambulance Services both Public and Private; Military and Police and Security Forces.

■ **PathfinderRF – a good strategic move – a recap.** On 10 June, Avia announced that its wholly owned subsidiary, Plain Healthcare Ltd, had signed a contract with Nene Commissioning Group ("Nene") in Northamptonshire to acquire the intellectual property rights to sell and manage future development of their PathFinder product. PathFinder is an on-line referral facilitation and clinical communication system which has already been rolled the system out across Northamptonshire. Plain will further develop and market the product, branded as PathFinderRF. PathFinderRF enables NHS Commissioning Groups and other Primary Care Organisations to manage referrals from GP surgeries to specialist and community services for further treatment. The consideration will be paid solely in the form of sales royalties on the licences to use the PathFinderRF, on a decreasing sliding scale over five years. Avia will fund the limited continued development cost of the product.

■ **Latest financial news.** On 8 March Avia announced that it had raised c.£0.6m (before expenses), through a subscription of up to 1,200,000 new ordinary shares, at 50p/share with both existing shareholders and new investors. The proceeds will be used to fund: (1) internationalising the Odyssey product software for new markets, including localisation of clinical content and development of e-learning tools; (2) building out existing and

developing new routes to market, including with channel partners, including associated working capital; and (3) completing further enhancements of the technology platform to promote cloud-enabled hosting and delivery to smart phones and other mobile devices.

Avia – Key data (£m)

Year to March	2009A	2010A	2011E	2012E	2013E
Operating Data					
Sales	1.9	1.8	2.2	3.8	4.7
Gross profit	0.8	0.8	1.2	2.2	2.8
EBITDA	-0.2	-0.3	-0.3	0.3	0.6
EBITA	-0.2	-0.3	-0.3	0.3	0.7
Continuing pre-tax profit	-0.2	-0.3	-0.3	0.3	0.7
Reported pre-tax profit	-0.2	-0.3	-0.3	0.3	0.7
Tax rate (%)	11	38	27	10	28
Net Income	-0.2	-0.2	-0.1	0.3	0.5
Net funds	0.2	0.5	0.5	0.5	0.6
Per Share Data (p)					
Share price	44	44	44	44	44
Fully diluted adjusted EPS	-6.8	-5.2	-2.6	4.8	7.5
DPS	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-11.8	-23.7	-9.3	0.0	1.2
Free cash flow yield (%)	-27	-54	-21	-0.1	2.7
Valuation Data					
EV/Sales (x)	1.4	1.3	1.0	0.6	0.5
EV/EBITDA (x)	-11.5	-7.4	-7.5	7.3	3.5
EV/EBIT (x)	-12.3	-7.7	-7.9	7.0	3.4
EV/FCF (x)	NA	-7.9	-2.8	-5.0	-690.7
EV/IC (x)	NA	52.5	7.7	3.6	2.6
P/E (x)	-6.4	-8.3	-17.0	9.1	5.8
P/FCF (x)	-3.7	-1.8	-4.7	-872.7	37.3
PEG (x)	NA	0.4	0.3	-0.0	0.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/NOPAT (x)	-15.5	-13.1	-18.2	7.4	4.6

Source Panmure Gordon

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Overall Global Distribution (Banking Client*)		
Buy	Hold	Sell
56% (33%)	36% (5%)	8% (0%)

* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients

Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)

Buy	Expected to produce a total return of 15% or better in the next 12 months
Hold	Fairly valued: total return in the next 12 months expected to be $\pm 10\%$
Sell	Stock is expected to decline by 10% or more in the next 12 months

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