

31 March, 2009

Nanosonics Ltd (NAN)

Buy

Nanosonics Commences Sales

NAN has announced that it has commenced production and commercial sales for its first product, the Trophon ultrasound probe disinfection unit. This device, which is able to rapidly disinfect ultrasound probes that are used extensively in gynecological and surgical procedures, received approval from the Australian regulators (the Therapeutic Goods Administration or TGA) in February 2009. The device also is approved in Europe and Canada and is expected to be approved in the US by the end of the year.

The first shipments of this product are to customers in Australia and New Zealand. However, the company has already initiated pre-launch activities in Europe and is expecting to ship the first units to that market during the next quarter.

While we are unlikely to get any clear guidance on the rate of uptake of sales until July 2009 (filing of Quarterly Commitments Test and Full Year Result), the company has indicated that there has been good interest from ultrasound professionals and clinicians. We are expecting the recent changes to regulations and guidelines for ultrasound reprocessing, both in Australia and overseas, should provide a strong driver for demand for NAN's Trophon.

This latest announcement further supports our investment thesis for NAN as a company on the brink of generating significant revenues from an innovative new product with sound commercial potential.

Product close to market: the Trophon has now been launched in Australia and New Zealand with launches in Europe and Canada expected in 4Q FY09 and US market entry in 2Q/3Q FY10.

Clear market need: existing process for disinfecting ultrasound probes have major shortcomings in effectiveness and safety.

Regulatory demand driver: these shortcomings have prompted changes to regulatory guidelines for ultrasound probe reprocessing. NAN's device is the only benchtop device that we are aware of that meets these new guidelines.

We have valued NAN on conservative forecasts for sales of the Trophon unit and associated consumables. We believe the product has the potential to exceed these forecasts. Furthermore, the company is developing additional products based on the same technology which have the potential to deliver additional revenue which would provide additional upside for investors. We have BUY recommendation for NAN with a price target of \$0.45.

YE 30 June	2008(A)	2009(E)	2010(E)	2011(E)	2012(E)
Operating Revenue \$M	0.0	3.0	17.0	34.0	43.3
Grants and Interest \$M	3.1	1.4	1.3	2.0	3.1
Total Revenue \$M	3.1	4.5	18.4	36.0	46.5
Net Profit \$M	-7.2	-5.8	1.9	12.3	15.4
Cash Balance \$M	24.2	18.5	20.4	32.7	48.1
Operating Cash Burn \$M	-10.2	-10.2	-16.4	-23.7	-27.8
Net Cash Burn \$M	-7.5	-5.8	1.9	12.3	15.4

Level 15, 60 Castlereagh Street Sydney NSW 2000 Tel (02) 9238 1238

Level 20, 90 Collins Street Melbourne VIC 3000 Tel (03) 9268 1000

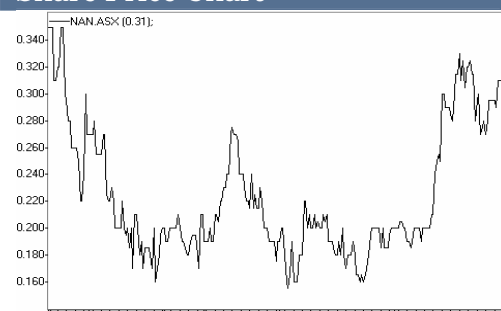
55 Phillip Street Parramatta NSW 2150 Tel (02) 9891 5644

Visit our website www.shawstock.com.au for a comprehensive range of investment and client services

Investment Summary

Share Price \$ps	\$0.31
Target Price (12 month) \$ps	\$0.45
Health Care	
www.nanosonics.com.au	
Issued Capital M	195.1M
Market Cap \$M	\$60.5M
Net Cash \$M (31 Dec'08)	\$19.2M
Analyst Name	Matthijs Smith

Share Price Chart



Year Hi-Lo \$ps	\$0.35 - \$0.14		
Avg Monthly Vol (M)	2.4		
Performance %	1 m	3 m	12 m
Absolute	24.2%	-6.8%	-69.9%
Rel Top 200	27.9%	9.6%	-32.9%

Shareholders

	%
Stang, Bernie	14.6%
Stang, Maurie	14.5%
Kritzler, Steven	14.2%
Kinetic Investment Partners	6.4%

Total Substantial Shareholders **49.7%**

Company Activities

Nanosonics is an Australian company focused on developing and commercialising a portfolio of novel disinfection and sterilisation products utilising its proprietary technology platform.



Shaw Stockbroking

FINANCIAL PERFORMANCE

Year End	June	2008 (Act)	2009 (Est)	2010 (Est)	2011 (Est)	2012 (Est)	2013 (Est)	2014 (Est)	2015 (Est)	2016 (Est)	2017 (Est)	2018 (Est)
Operating Revenue	\$M	0.0	3.0	17.0	34.0	43.3	47.3	46.8	42.5	37.8	35.1	34.6
Interest Revenue	\$M	1.9	1.4	1.3	2.0	3.1	4.4	5.5	6.4	7.3	8.1	8.8
Gov't Grants	\$M	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	\$M	3.1	4.5	18.4	36.0	46.5	51.7	52.2	49.0	45.1	43.2	43.5
Operating Expenses	\$M	-9.4	-9.4	-15.6	-22.9	-27.0	-29.0	-29.3	-28.3	-27.3	-27.3	-28.3
EBITDA	\$M	-6.4	-5.0	2.7	13.1	19.5	22.7	22.9	20.6	17.8	15.9	15.1
		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation & Amortisation	\$M	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Amortisation of Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	\$M	-7.1	-5.8	1.9	12.3	18.7	21.9	22.1	19.8	17.0	15.1	14.3
Interest Expense	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax Expense	\$M	0.0	0.0	0.0	0.0	-3.3	-6.6	-6.6	-6.0	-5.1	-4.5	-4.3
Profit After Tax	\$M	-7.2	-5.8	1.9	12.3	15.4	15.3	15.5	13.9	11.9	10.6	10.0
Per Share												
EPS	cps	-3.7	-3.0	1.0	6.3	7.9	7.9	7.9	7.1	6.1	5.4	5.1
Cash Backing	cps	12.4	9.5	10.5	16.8	24.7	32.5	40.5	47.6	53.7	59.1	64.2

CASH FLOW

Year End	June	2008 (Act)	2009 (Est)	2010 (Est)	2011 (Est)	2012 (Est)	2013 (Est)	2014 (Est)	2015 (Est)	2016 (Est)	2017 (Est)	2018 (Est)
Receipts	\$M	1.4	3.0	17.0	34.0	43.3	47.3	46.8	42.5	37.8	35.1	34.6
Suppliers & Employers	\$M	-10.2	-10.2	-16.4	-23.7	-27.8	-29.7	-30.1	-29.1	-28.1	-28.1	-29.1
Interest Received	\$M	1.7	1.4	1.3	2.0	3.1	4.4	5.5	6.4	7.3	8.1	8.8
Tax Paid	\$M	0.0	0.0	0.0	0.0	-3.3	-6.6	-6.6	-6.0	-5.1	-4.5	-4.3
Cash From Operations	\$M	-7.1	-5.8	1.9	12.3	15.4	15.3	15.5	13.9	11.9	10.6	10.0
Cash From Investing	\$M	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash From Financing	\$M	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Opening Cash Balance	\$M	31.9	24.2	18.5	20.4	32.7	48.1	63.5	79.0	92.8	104.7	115.3
Net Incr / (Decr) In Cash	\$M	-7.7	-5.8	1.9	12.3	15.4	15.3	15.5	13.9	11.9	10.6	10.0
Closing Cash Balance	\$M	24.2	18.5	20.4	32.7	48.1	63.5	79.0	92.8	104.7	115.3	125.3

BALANCE SHEET

Year End	June	2008 (Act)	2009 (Est)	2010 (Est)	2011 (Est)	2012 (Est)	2013 (Est)	2014 (Est)	2015 (Est)	2016 (Est)	2017 (Est)	2018 (Est)
Cash & Cash Equivalents	\$M	24.2	18.5	20.4	32.7	48.1	63.5	79.0	92.8	104.7	115.3	125.3
Current Assets	\$M	24.6	18.8	20.7	33.1	48.5	63.8	79.3	93.2	105.0	115.6	125.6
Non-Current Assets	\$M	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
TOTAL ASSETS	\$M	25.6	19.9	21.8	34.1	49.5	64.9	80.4	94.3	106.1	116.7	126.7
Current Debt	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	\$M	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Non-Current Debt	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL LIABILITIES	\$M	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07
Equity	\$M	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
Accumulated Profits / (Losses)	\$M	-17.3	-23.1	-21.1	-8.8	6.6	21.9	37.4	51.3	63.2	73.7	83.8
TOTAL EQUITY	\$M	24.6	18.8	20.7	33.1	48.5	63.8	79.3	93.2	105.1	115.6	125.7

VALUATION

Risk Free Rate	%	3.97%
Market Premium	%	5.00%
Beta	x	1.80
Discount Rate	%	13.0%
Forecast Period	years	14
Current Valuation	\$	\$0.40
12-Month Price Target	\$	\$0.45
Current Price	\$	\$0.21
Return	%	112%

Company Directors

Mr Maurie Stang (Ch)
David Radford (MD/CEO)
Mr Bill Widin

Dr Ron Weinberger
Mr David Fisher

Company Activities

Nanosonics is an Australian company focused on developing and commercialising a portfolio of novel disinfection and sterilisation products utilising its proprietary technology platform.

Information for Company Activities is sourced from Huntley Investment Information Pty Ltd.

Disclosures and Disclaimers

Shaw Stockbroking ABN 24 003 221 583 ('Shaw') is a participant of ASX Limited and holder of Australian financial services licence number 236048.

ANALYST CERTIFICATION

The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products.

The Research Analyst has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. As at the date of this report the Research Analyst does have an interest in the financial products of the Company.

DISCLAIMER

This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs ('personal circumstances'). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your personal circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client advisor.

This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so.

This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it.

If you rely on this report, you do so at your own risk. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.

DISCLOSURE

Shaw will charge commission in relation to client transactions in Financial Products and Shaw client advisers will receive a share of that commission. Shaw, its associates and their respective officers and employees may in the future earn fees and commission from dealing in the subject company's Financial Products.

RISK STATEMENT The analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw advisor before making any investment decision.