

17 May 2007

## MDY Healthcare

Balance sheet date	Portfolio value (£m)	Cash (£m)	NAV (£m)	NAV per share* (p)	Discount to NAV (%)
03/09/06	1.2	17.1	19.0	136	25.0
31/03/07e	6.4	9.4	15.6	114	10.5

Note: prior results are not meaningful, given change in strategy; \*post share consolidation.

### Investment summary: Healthcare investor

MDY Healthcare is a UK-listed investment company that is aiming to generate returns to its investors by opportunistic investment in med-tech, biotech and healthcare companies on a global basis. The company is one of a small number of collective investment vehicles available to healthcare investors in the UK and is currently the only one trading at a significant (c.10%) discount to its NAV.

#### Specialised healthcare investment firm

MDY's principals have significant operational and investment experience in the UK biotech/med-tech sector, and as a result have well-established networks that give them access to investing opportunities in the quoted and non-quoted sectors. The company aims to acquire strategic stakes in companies at any stage, hold them over a relatively long period and achieve value growth and ultimately attractive exits.

#### Five strategic investments to date

In the 11 months since its effective formation, MDY has made five strategic investments totalling approximately £4m — in Cozart, Minster Pharmaceuticals, Allergy Therapeutics, AOI Medical and Medivance. In addition, it has made around 12 non-strategic investments with a total value of around £2.5m.

#### Share consolidation to improve marketability of shares

MDY has just completed a 50-for-1 share consolidation, designed to improve the marketability of its shares by narrowing the previously large bid-offer spread.

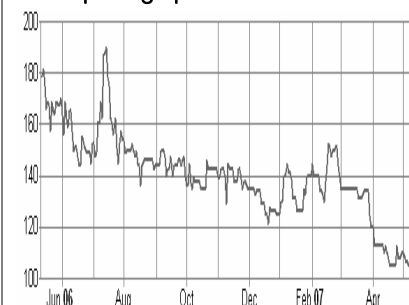
#### Valuation: Trading at discount to portfolio value

Over the long term, MDY's shares are likely to track the value of its underlying investments, although its conservative approach to valuing private companies may give rise to hidden value over time. MDY has not, to date, disclosed its NAV, but will do so with the publication of its interims results in mid-June. Its share price is trading at a 10% discount to our estimate of NAV, which is large in comparison with its peers, including healthcare sector-focused investment trusts.

Price 101.5p\*  
Market Cap £14m\*

\*post share consolidation

#### Share price graph



#### Share details

Code MDY  
Listing AIM  
Sector Speciality Finance  
Shares in issue 14.0m\*

\*post share consolidation

#### Price

52 week High 190.0p  
Low 98p

#### Balance Sheet

Debt/Equity (%) N/A  
NAV per share (p)\*\* 114  
Net cash (£m)\*\* 9.4

\*\*estimated as of 31/3/07

#### Business

MDY Healthcare is an investment company focused on investment in life science companies.

#### Valuation

	2006	2007e	2008e
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

#### Revenues by geography

UK	Europe	US	Other
100%	0%	0%	0%

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## Company description: Healthcare investor

MDY is an UK-listed investment company that is aiming to generate returns to its investors by opportunistic investment in healthcare companies (med-tech, diagnostics, bio and speciality pharmaceuticals, and healthcare products and services) on a global basis. It aims to achieve returns for its shareholders by investing in public and private companies, at any stage of their development, in these sub-sectors on a global basis.

MDY's principals have significant operational and investment experience in the sector and are able to screen a wide range of different investment opportunities. The company operates a disciplined investment process designed initially to "triage" investment opportunities, and those that are successful are subjected to formal and rigorous due diligence process.

In the 11 months since it started operating as an investment company, MDY has made five strategic investments; three are in UK-listed firms: Cozart, Minster Pharmaceuticals, Allergy Pharmaceuticals, and two are private US companies: AOI Medical and Medivance. In addition, the company holds non-strategic investments in around 12 companies (all UK-listed healthcare companies), which provide general exposure to stock performance in the sector.

The company is pursuing a long-term long-only investment strategy. It is not currently leveraged (although it may become so in the future) and, by choice, has decided not to invest in derivative instruments, either to increase or hedge its exposure to the sector.

MDY is due to publish interim results for the period to end March (effectively the first six months of operations) in mid-June. The company's investment portfolio (unaudited), as of end-April, is shown in Exhibit 1. We have profiled these companies on pages 4-5.

### Exhibit 1: MDY's investment portfolio

Notes: As of end-April 2007; \* approximate.

Company	Type of instrument	No of shares ('000)	% of equity	Total invested (£'000)	Share price (p)	Current value (£'000)
Cozart	ordinary shares	2,232	2.09%	675.0	35p	781.4
Minster Pharma	ordinary shares	726	1.24%	472.0	71p	511.7
Minster Pharma	warrants	181			N/A	
Allergy Therapeutics	ordinary shares	500	0.61%	540.0	109	542.9
AOI Medical	ordinary shares	432	7.50%	769.2	N/A	769.2
Medivance	N/A	N/A	N/A	1,282	N/A	1,282.1
<b>Total strategic</b>				<b>3,738.2</b>		<b>3,887.3</b>
<b>Non strategic</b>	ordinary shares	N/A	N/A	2,500	N/A	2,500*
<b>Total investments</b>						<b>6,400*</b>

Source: MDY Healthcare/Edison Investment Research

## A brief background

MDY was effectively formed in June last year, after Medisys (MDY's previous name) sold its entire operating businesses to ARKRAY. The company then repositioned itself as a strategic investor in the healthcare sector and raised £4.7m through the issue of 156.6m shares (at 3p per share), with the UK investment group 3i taking a strategic stake.

## Management

Exhibit 2 below sets out the principal management team.

### Exhibit 2: MDY management

<b>Directors</b>	
David Wong Chairman	Chairman of MDY since 2003 and a director since 1998 (CEO of Medisys from 1998 to 2003). He has founded and been a director of a number of companies in the medical and bioscience areas and in other fields.
Charles Spicer Chief executive officer	Appointed as CEO in July 2006. Previously head of healthcare corporate finance at Numis Securities (2003–2006) and prior to that held the same role at Nomura International (1998–2003), advising on corporate finance, M&A and corporate broking.
Alan MacKay Non-executive director	Appointed NED in July 2006. Global lead partner of healthcare at 3i Investments plc and a member of the 3i leadership team, responsible for investments in pharmaceuticals, medical device and healthcare services in Europe, the US and Asia.
Derek Ablett Non-executive director	Director since 1997 and chairman to 2003. He has 18 years of experience in banking with a major UK clearing bank and 11 years with a merchant bank. He is a NED involved in companies operating in a number of sectors.
<b>Executives</b>	
Robert Watson Associate director	Joined MDY in December 2006. Previously an investment analyst at Sofinnova Partners, a leading French VC firm, where he worked in a team investing in private biopharmaceutical and medical technology companies. Previously a molecular geneticist and neuroimmunologist at Oxford University.
Louisa Hellier General counsel, company secretary	Appointed in September 2006. Previously corporate finance director in the healthcare group at Nomura International (1998–2006) and a solicitor in the corporate department at Allen & Overy, where she qualified in 1996 having graduated in Law from Oxford University.
Marina Nones	Joined MDY in September 2006. Prior experience at Terra Firma Capital Partners, Nomura International and Bank Hapoalim.
<b>Senior advisors</b>	
Lawrence Kinet	Non-executive chairman of Oxford Immunotec and Endosense and a director of M2. Previously an executive director of Smiths Group, where he headed Smiths Medical, chairman and CEO of Aksys, a medical equipment company involved in automated home dialysis for kidney patients, and of Oculon, a specialist in cataract inhibition. He has significant experience in senior management at Baxter International.
Jonathan Milner	Co-founder and CEO of Abcam, an LSE-listed producer and distributor of research-grade antibodies and associated products.
Brian Steer	Executive chairman of Gyrus, a FTSE-250 medical technology company specialising in tissue management and visualisation during surgical procedures, which he joined in 1997. He has 40 years' experience of management within the healthcare industry including 20 years with Baxter Healthcare, and 10 years as president of Zimmer International.

Source: MDY Healthcare

## Underlying investments: Five strategic holdings

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### Cozart (LSE:CZT)

Cozart is a UK medical diagnostics company that develops, manufactures and markets a range of immunodiagnostic tests principally for the detection of drugs of abuse. Products include laboratory-based testing kits for the detection of drugs in a variety of biological samples (saliva, hair, blood etc.). The company offers the Cozart RapiScan and Cozart Drug Detection systems, which are portable devices used for the on-site testing of drugs of abuse in oral fluid (saliva) samples. Cozart supplies point-of-contact testing products, laboratory services and forensic testing kits to the criminal justice (e.g. police forces, probation services and prisons), medical (e.g. hospitals and drug dependency clinics) and workplace markets (e.g. pre-employment, random and 'for cause' testing). Cozart has wholly owned subsidiaries in the UK, Spain, France, Sweden and Italy. MDY has made investments as part of placing to finance Cozart's acquisition of HL Scandinavia and Nemesis Scientific, a provider of workplace drug and alcohol testing services for £1.1m.

### Minster Pharmaceuticals (LSE:MPH)

Minster is a UK drug development company specialising in neuroscience. It is developing tonabersat for prevention of migraine and sabcomeline for cognitive deficit associated with schizophrenia. Both compounds were acquired from GlaxoSmithKline and have benefited from substantial prior investment. Minster reported data from a Phase II double-blind placebo-controlled study of tonabersat in 124 patients over three months, which showed positive results in a number of endpoints. In March 2007, it completed a £17m equity fundraising, led by Care Capital and Rho Capital. For more details on Minster see our research note of 9 January 2007.

### Allergy Therapeutics (LSE:AGY)

Allergy Therapeutics is a UK-based specialty pharmaceutical company focused upon the treatment and prevention of allergy. It has an existing sales base, an MHRA-approved manufacturing capability and an established sales and marketing infrastructure in several major European markets. In addition, the company has a number of novel compounds, which have already undergone initial clinical evaluation and once registered, could potentially revolutionise the treatment of allergy. In January, Allergy began a global Phase III development programme of Pollinex Quattro.

### AOI Medical (private)

AOI Medical is a developer of novel medical devices intended to treat vertebral compression fractures, extremity fractures and disorders associated with cervical vertebrae degenerative disease. AOI's products are targeted for launch in the US from 2008. Vertebral compression fractures are typically treated by kyphoplasty (inflating a balloon inside the vertebrae and replacing the balloon with cement) or vertebroplasty (repairing the fractures of the vertebra externally to the vertebrae) and represent a large and growing market. Extremity fixation also represents a large market opportunity and is currently treated by various methods. Cervical degenerative disease involves the degeneration of disk, vertebrae and laminae for a number of reasons and is

increasingly being treated by total disk replacement with the next generation of devices targeting facet, nucleus and annulus amongst others. The company is based in Florida, US.

### **Medivance (private)**

Medivance is a leader in the emerging field of therapeutic temperature management. The company's non-invasive Arctic Sun technology is a patented and FDA approved device to rapidly cool patients to achieve "therapeutic hypothermia", and precisely control temperature as a therapeutic tool. Therapeutic cooling has been shown to reduce brain damage after traumatic events such as cardiac arrest and brain injury. It also has potential applications in the treatment of stroke and fever. Arctic Sun was introduced in 2004 and is being used in the US, Europe and Asia. Medivance is based in Boulder, Colorado.

## Sensitivities

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MDY's investment proposition has a number of sensitivities including the following:

- **A highly concentrated portfolio** — MDY currently has a focused portfolio with five major investments, which means an unexpected positive development or a setback for any one company is likely to have a material impact on the overall portfolio value.
- **Sector-focused portfolio** — MDY intends to invest only in healthcare companies and therefore is exposed to the overall performance of this sector, relative to the stockmarket in general.
- **Fluctuating portfolio valuations** — the overall value of the investment portfolio at balance sheet dates will fluctuate with the valuations of investee companies, based on the timing of fundraisings and, where publicly quoted, with their share prices. The net effect of the gains and losses is also recognised in the P&L account and, as it is determined at a particular date in the future, makes the forecasting of P&L results inherently uncertain.
- **Forex movements affect NAV per share** — MDY's cash and a significant proportion of assets are denominated in US dollars, so sterling-denominated NAV per share (and therefore the share price premium to NAV) is affected by changes in the USD/GBP exchange rate.

## Valuation

Over the long term, we would expect that MDY's shares are likely to track the growth in its underlying investments, although its conservative approach to valuing private companies may give rise to hidden value over time. As with all collective investment vehicles, the share price moves in relation to the underlying assets, but from time to time may move to a discount or premium to net asset value. Currently, its share price is a 10% discount to our estimate NAV, which is large in comparison with its peers, such as healthcare sector-focused investment trusts. (Note: MDY is organised as an investment company, rather than an investment trust.)

### Exhibit 3: UK biotech/healthcare collective investment vehicles

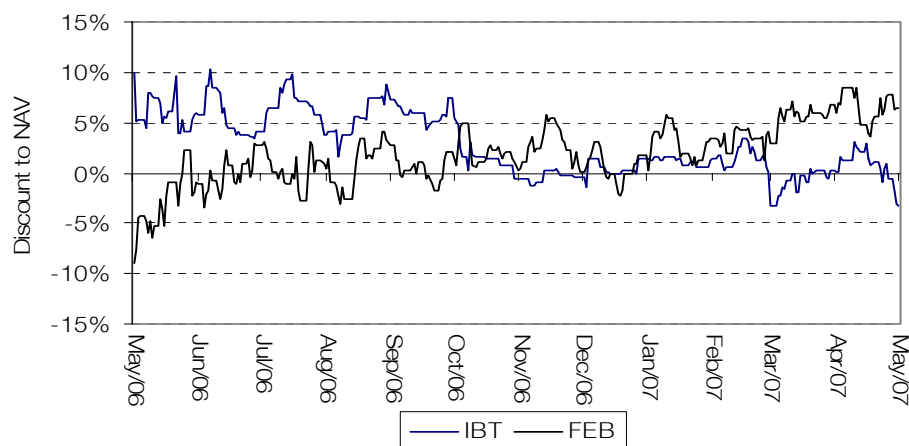
Note: Share prices as of 17/5/07.

	Share price (p)	Market cap (£m)	NAV (£m)	NAV/Share (p)	Premium /discount	Investment portfolio
International Biotechnology Trust (IBT) ords	160	75.4	73.2	158.8	+2.0%	Mostly US large cap biotech/emerging pharma.
Finsbury Emerging Biotech (FEB)	116	75.8	81.4	124.1	-6.4%	Mostly US large cap biotech.
MDY Healthcare (MDY)	102	14.0	15.6	114	-10.5%	UK/US small/medium cap biopharmaceutical and medical devices.

Source: Edison Investment Research

Exhibit 3 illustrates the premium/discount to NAV of the two listed collective investment companies over the past year. As can be seen, these have tended to fluctuate mostly between a discount of 5% and a premium of 5%.

### Exhibit 4: IBT and FEB discount (premium) to NAV May 2006–2007



Source: Bloomberg

## Financials

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MDY has not yet published any financials in its new form so it is not practical to publish detailed financials or forecasts at this point. The company operates as an investment company (rather than an investment trust), so fluctuations in the value of its holdings are likely to be recognised in the balance sheet and on the P&L. The fall in the NAV between September 2006 and March 2007 reflects a write down relating to the historic Medisys business, the operating costs and the adverse movement of the US dollar/sterling exchange rate. We estimate its running costs at running at c.£1m per year.

## Share consolidation

MDY has just completed a 50-for-1 share consolidation, which should reduce the bid-offer spread, which has previously been disproportionate in relation to the share price. The share capital reorganisation also allows shareholders with uneconomic shareholdings to sell in a cost-efficient manner and should streamline the share register, resulting in some savings in terms of administrative costs.

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