



The small company specialists

# COMPANY INFORMATION

Patientline plc (LSE:PTL)

Info sheet compiled March 2007

Company Eye Ranking

17/50

## EDITOR'S NOTE

Patientline plc is engaged in the development and operation of bedside communication systems for hospital patients and hospitals.

Use of advanced technology at the bedside in hospitals is relatively underdeveloped. Very few patients have access to Internet, email or telephony. There is a growing demand for technology that will permit these functions to be performed at the bedside creating a variety of benefits.

For the last year the Group has been through a very challenging period, involving not only difficult trading conditions but also an investigation by Ofcom into the level

of charges for incoming calls and whether its agreements with NHS trusts infringed competition law.

The share price of the Group has also suffered a substantial decline during the year.

In our opinion Patientline could have a promising future ahead but at this stage we consider this a very risky investment especially considering the substantial indebtedness of the Company. We consider there is a good chance that the Company will fail unless sales improve substantially or there is a debt for equity swap.

## 1 YEAR CHART



## FUNDAMENTALS

Company Name	Patientline plc
Current Price	2.15
Status	AIM
Market Cap	1.98 m.
Shares in Issue	92.04 m.
Price-to-Book Ratio	0.5
Activities	A group engaged in the development and operation of bedside television, radio and telephone terminals for hospital patients.
Sector	Fixed Line Telecommunications
Corporate advisor	Hawkpoint Partners Limited
Registrar	Capita Registrars

## HISTORY

Berkshire based Patientline was founded in 1994 when the company pioneered integrated entertainment and

communications services to patients in NHS hospitals.

## THE BUSINESS

Patientline plc is engaged in the development and operation of bedside communication systems for hospital patients and hospitals. Its systems normally comprise a terminal at each bed, of which there are three types; Terminal 1, Terminal 2 analogue and Terminal 2 fully-digital. The terminals are networked to a control room on site, containing a head end for television and radio, telephone switch or equivalent and a series of computer servers to manage the

system. The product offering has focused on telephony, television and basic information services. In the United Kingdom, Patientline offers access to Internet, email, games, electronic menu display and food ordering through its terminals at some hospitals. Access to information about the hospital, clinical images and medical information can be delivered at the bedside together with patient satisfaction questionnaires and translation services.



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### ACTIVITIES

The Group's principal activity is developing and operating bedside communication systems for hospital patients and hospitals. The Group provides bedside systems in acute hospitals, offering communication, entertainment, information and healthcare services for patients, clinicians, administrators and other users. The systems includes a terminal at each bed offering telephone, television and

radio and in some hospitals, internet, gaming and email services. The systems can also provide additional hospital based services such as electronic patient records and food ordering functionality. The Group operates in the United Kingdom, the Netherlands, Holland and the United States of America.

### OPERATION

#### UK Market

The UK hospital market is dominated by the National Health Service (NHS), which accounts for the majority of all acute beds. The NHS is undergoing extended and radical change, which includes:

- Substantial increases in spending, coupled with a split between purchasers (the Primary Care Trusts) and providers (which includes the acute hospitals)
- Greater autonomy for hospitals through the introduction of Foundation Trusts, accompanied by greater financial discipline
- Greater use of the private sector to provide services and run hospitals, including specialist independent treatment centres for day case surgery
- A commitment to increased involvement and choice for patients
- Investment in introducing nationwide IT systems.

Unlike most western countries the UK does not provide a personal telephone and television for each patient within NHS hospitals. The Patient Power programme launched by the Government in England in 2000 aimed to fill this gap by arranging for private sector companies to provide a personal telephone and television at each bed, funded by the companies, with the costs recovered through charges to users under long term contracts.

Patientline, together with two other providers, was granted a full license to install and operate its systems in acute hospitals in England. Other licenses have been granted since, but only two other providers are currently active.

There are just over 300 acute hospitals with 200 beds or more, representing 140,000 beds in total.

Patientline has been selected by 184 of these hospitals, a market share of 60%.

#### Continental European Market

The market for Patientline in the Netherlands consists of 112 hospitals for which concessions for the provision of bedside television and telephone services are possible. Patientline has two main competitors in the Netherlands and is market leader with a share of 45% based on contracts with 50 hospitals. Patientline's system in these hospitals ranges from a simple television or telephone service to the latest Terminal 2. In France, around 200 hospitals have more than 300 beds. Some 326 hospitals have more than 200 beds. As in the Netherlands, most beds have some form of television and telephone service. In both countries, the opportunity for Patientline is to upgrade hospitals to more advanced systems with wider functionality.

#### North American Market

The 1,400 hospitals in the United States with more than 200 beds are typically operated by one of the three categories of organisation – for profit, not for profit or the state. Funding is normally via insurance or Federal schemes, with significant competition for patients and clinicians between different hospitals. Most acute hospital accommodation is single or twin room, with a conventional television and telephone service provided. Only a small proportion of US hospitals charge for television and local calls are typically free.

### COMPANY PHILOSOPHY

Fundamental to the Company's philosophy is the integration within a single unit of the communication facilities and information supply capabilities which together meet the patient's and the clinician's needs for efficient care at the bedside. The further market opportunity lies in the provision of more sophisticated technology with wider

functionality to respond to the pressures to improve care, reduce errors, save staff time and improve patient satisfaction. The market for products is in its very early stage, but is rapidly gaining a higher profile.

**Principal competitors** include Cardinal Healthcare, McKesson Corporation and GetWell.

### BUSINESS MODELS

#### UK Business Model

Patientline typically enters a selection process with each NHS trust for the provision of its services and, when successful, contracts with the trust to provide the service for a 15 year term, extendable to 20 years. Patientline installs, owns and maintains the bedside terminals, giving it the risk and associated reward of installing and operating

the system Patientline invests between £750,000 and £1 million to install its system in an average hospital. Currently charges for telephone and television provide the principal source of revenue to cover direct costs, staffing at the hospital and in the customer care centre, maintenance and depreciation.



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# COMPANY INFORMATION

Patients pay on a usage basis, pre-paying either through the purchase of a smart card or by making a credit/debit card charge. Patientline also receives a share of the income on incoming calls, which are paid for by the caller. Revenues per terminal depend on the range of services offered, maturity of the installation, bed occupancy, the types of wards and patients, and lengths of stay.

Patientline's strategy has been to grow revenues by offering a wider range of paid-for services to patients and offering a range of services to hospitals to help improve care, efficiency and patient satisfaction. Games and Internet/email are being rolled out.

Recently patient revenues have been affected by operational changes in the NHS. These include a reduction in stay length, particularly in maternity and elderly wards, and financial deficits in some trusts, which have led to ward closures.

Services to hospitals now include access to electronic patient records (EPR) at the bedside, menu display and food ordering, medical information for patients and patient opinion surveys. EPR access is live at Chelsea & Westminster Hospital. Utilisation at other hospitals will be heavily dependent on roll out of the national programme for EPR. Food ordering is also live at the first hospital and is attracting widespread interest.

### **Continental European Business Models**

In the Netherlands Patientline owns and operates a range

of bedside television and communications systems and receives revenues from patients for the use of these services. Patientline entered the Dutch market with the purchases of Hospital Entertainment in 2000 and Telehire in 2001, both of which had relatively basic systems operated by on-site staff, and is progressively upgrading these systems.

While some hospitals have been converted to Patientline's Terminal 2 technology, many have been upgraded to the Midrange solution: a conventional television set on a bracket, linked to telephone and keypad control, and with a centralised remote management system. Three hospitals in Holland has entered into contracts for the installation and operation of Terminal 2, one of which includes provision for access to EPR.

Those hospitals requiring Terminal 2 services now either make a capital contribution towards the system or pay a fee.

### **North American Business Model**

In North America, Patientline offers a conventional sale of the terminals together with provision of an ongoing multi-year software and maintenance contract.

Patientline has three contracts for the provision of Terminal 2 systems in North America and an increasing number of hospitals in the sales pipeline.

## DIRECTORS

### **Derek Lewis (Aged 58, Chairman)**

Derek Lewis began his career with Ford Motor Company before moving to the Imperial Group and then becoming Finance Director followed by Chief Executive of Granada Group. Having established the UK Gold television channel, he moved to the role of non-executive chairman on appointment as Director General of Her Majesty's Prison Service in England and Wales in 1993. He was subsequently chairman of Sunsail International plc, before being appointed Chairman of Patientline in April 1998. He is also chairman of Protocol Associates.

### **Per Jonsson (Aged 45, Chief Executive)**

Per Jonsson is a Swedish National who spent sixteen years with GE, including five years with its Medical Systems Division. He moved from Sales and Marketing roles into General Management roles in Europe and the US. Per holds an MS in Engineering Physics from the Royal Institute of Technology in Stockholm, Sweden and an MBA from Insead, and was appointed to the Board of Patientline in March 2005.

### **Phil Dennis (Aged 44, Finance Director)**

Having qualified as a Chartered Accountant with Arthur Andersen, Phil Dennis spent 11 years in a variety of corporate and operational roles with GKN plc and Caradon plc, covering M&A, financial planning, business entity Finance Director and general management. He was Finance Director of Novar plc's Intelligent Building Systems Division from 1998 to 2003. He joined Serco Group plc's Integrated Transport Division as its Finance Director in 2003. He was appointed to the Board of Patientline plc in September 2004.

### **Mair Barnes (Aged 60, Non-executive Director)**

Previously Managing Director of Dingles, Mair Barnes joined Woolworths in 1985 where she was Managing Director from 1987 to 1994 before becoming Chairman of Vantios Plc in 1995, remaining involved until February 2000. Veuve Clicquot Businesswoman of the Year in 1988, Mair is a non-executive Director of the South African company Woolworths Holdings Ltd. and was appointed as non-executive Director of Patientline in March 2001, becoming Senior Independent Director in March 2004.

### **Ross Graham (Aged 57, Non-executive Director)**

Formerly a partner with a predecessor firm of Ernst & Young, Ross Graham joined Misys plc as Finance Director in 1987 and became Corporate Development Director in 1998. A non-executive Director of Acambis plc and Wolfson Microelectronics plc and non-executive Chairman of Vecta Software Corporation Ltd, he was appointed as non-executive Director of Patientline in February 2005.

### **Sir Alan Langlands (Aged 53, Non-executive Director)**

With varied experience in the NHS and also as a consultant with Towers Perrin, Sir Alan was appointed Deputy Chief Executive of the NHS Executive in 1993 and Chief Executive from 1994 until August 2000. Currently Principal and Vice Chancellor of the University of Dundee and Chairman of UK Biobank Limited and he was appointed as non-executive Director of Patientline in March 2001.



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# COMPANY INFORMATION

## SHAREHOLDINGS

	Number	%
Shore Capital Limited	13,159,858	14.23
Morgan Stanley Securities Limited	13,100,815	14.17
Barclays PLC	5,645,995	6.11

	Number	%
Man Financial Limited	3,742,700	4.05
Credit Agricole Cheuvreux	3,500,000	3.7
Legal And General Group	3,300,000	3.57

## FINANCIAL HISTORY

### Profit and loss account for 6 months to 29<sup>th</sup> September 2006

£	6 months to 29th Sept 2006	Year to 31st March 2006
Revenue	25,053	55,408
Staff costs	(10,661)	(22,219)
Telecoms and other service related costs	(2,109)	(4,975)
Infrastructure support costs	(3,529)	(4,006)
Changes in inventories of finished goods	(691)	207
Raw material and consumables used	(546)	(1,769)
Other operating expenses	(2,217)	(4,537)
EBITDA	5,300	18,109
Depreciation and amortisation	(10,534)	(23,404)
Exceptional impairment of non-current assets	(56)	(12,209)
Operating loss	(5,290)	(17,504)
Finance costs	(3,824)	(7,215)
Loss before taxation	(9,114)	(24,719)
Taxation	(38)	(215)
Retained loss for the period attributable to equity shareholders	(9,152)	(24,934)
Loss per share - basic and diluted	(9.9)p	(27.0)

### Balance Sheet as at 29<sup>th</sup> September 2006

£	As at 29th September 2006	As at 31st March 2006
Property, plant and equipment	83,019	90,959
Goodwill	4,867	5,054
Other intangible assets	896	1,563
Non-current assets	88,782	97,576
Inventories	331	1,022
Trade and other receivables	3,738	4,220
Cash and cash equivalents	1,850	1,806
Current assets	5,919	7,048
<b>TOTAL ASSETS</b>	<b>94,701</b>	<b>104,624</b>
Borrowings	6,101	3,032
Derivative financial instruments	-	-
Trade and other payables	11,670	11,273
Current tax liabilities	165	195
Current liabilities	17,936	14,500
Borrowings	80,388	84,494
Derivative financial instruments	993	1,513
Non-current liabilities	81,381	86,007
Total liabilities	99,317	100,507
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	4,623	4,623
Share premium account	76,882	76,882
Other reserves	(218)	(637)
Retained earnings	(85,903)	(76,751)
Total shareholders' (deficit)/equity	(4,616)	4,117
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>94,701</b>	<b>104,624</b>

## STRATEGY

Patientline's strategy is to develop long-term partnerships with hospitals by offering innovative turnkey solutions for the provision of bedside services using a combination of third party and proprietary technology. This strategy embraces a variety of business models including

integrated ownership and operation of the system through to conventional equipment sale coupled with the ongoing provision of software and maintenance support. The company focusing on the UK, the Netherlands, France and North America.

## ROLLING EPS



## VOLATILITY





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# COMPANY INFORMATION

## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered. The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

## CONTACT

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SL1 4AA  
United Kingdom

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	25
Customers	15
Low cost	11
Management	
- corporate governance	17
- quality	18
- shareholding	20
Product	14
Sector	19
<b>Financial evaluation</b>	
Early and profitable exit potential	17
Financial strength	
- cash flow	19
- conservative accounting	17
- need for funding	15
Growth at a reasonable price	14
Risk	17
<b>Overall average rating</b>	<b>17</b>



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### FURTHER INFORMATION ABOUT THE RANKING

#### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's

value chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### Competition

How intense is the competition and are there barriers to entry?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

#### Sector

Is the company in an attractive sector that is profitable and adds value?

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