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## Emerging Companies Review

Quarterly

October 2007

Choppy markets make for a difficult quarter

EXTRACT

# Contents

This is an extract from the October 2007 Emerging Companies Review.

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# Aeris Technologies Ltd (AEI)



<b>Sector</b> Industrials	<b>Industry Group</b> Capital Goods	<b>Industry</b> Building Products	<b>Sub Industry</b> Building Products
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## Company Overview

AEI is an integrated environmental services company founded on over a decade of R&D. It is focused on the global markets for the control of biological contamination in air-conditioning, cold storage refrigeration and large water systems. The market opportunity is driven by a growing demand for energy conservation, improved environmental hygiene and increased concerns about the health risks associated with microbial contamination.

## Strategy

AEI has developed a strong direct-to-market strategy, which is being implemented in key markets in Australia and the USA and was bolstered by the recent acquisition of an environmental company on the east coast of America. This direct model is supported by distribution partnerships with Sumitomo 3M in Japan and Trane in the Asia-Pacific region. The company is focusing on energy reduction, refrigeration hygiene and water treatment where it recently won a service contract with BHP Billiton.

## Aegis Comments

**Outlook:** We see AEI continuing to focus on its high, value-add direct service model targeting long-term contracted revenue. This will be driven by the high-profile commitment of several multi-national corporations to lowering energy consumption, improving air quality and optimising productivity. AEI has successfully reached agreements with large multi-national corporations, which should deliver medium-term revenue growth. Recent outside testing of AEI's technologies has yielded favourable results.

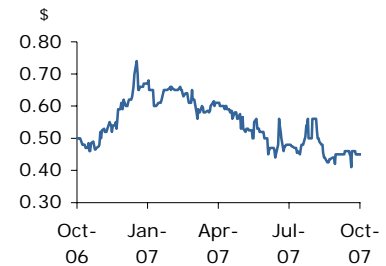
**Catalysts:** There are several catalysts investors should monitor: increasing sales from Sumitomo 3M in Japan; growing sales from Trane as it takes AEI's full suite of products into the rest of Asia; increasing OEM corrosion protection orders; uptake by multi-nationals based on energy reduction following trials; the signing of a partnership agreement for AEI's water treatment products in the mining and groundwater treatment markets; and growth in Aeris Hygiene Services' food hygiene direct service business.

**Risks:** AEI is in the early stages of commercialisation; however, some of its products appear to be gaining market acceptance. Expansion into new geographic regions may face lower than expected product take-up rates. Its R&D investment into biofilm resistant polymers with the CSIRO might take longer than planned to commercialise. AEI has \$2.6M in cash (as at Jun-07), a quarterly cash burn of about \$800,000 and improving revenues, which should allow it to execute its business plan without interruption.

## Key investment information

<b>Price:</b>	<b>\$0.46</b>
Price as at:	17-Oct-07
Market Cap (\$M):	39.8
Equiv. Shares (M):	87.52
% Market:	0.00
12Mth Range (\$):	0.40 - 0.75
Shares Traded (\$M pa):	4.8
Listed since:	July 2002
Index:	n/a

## Share price performance



## Company contact



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## Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2005A	(3.3)	(3.3)	(6.8)	n/a	(6.7)	(0.3)	(0.2)	0.0	0.0	0	(147.2)
2006A	(3.5)	(3.5)	(4.0)	n/a	(11.3)	(0.5)	(0.4)	0.0	0.0	0	(90.5)
2007A	(4.1)	(4.1)	(4.6)	n/a	(9.9)	(0.5)	(0.4)	0.0	0.0	0	(175.9)

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

**Financial Stability**

**Balance Sheet (Y/E Jun)**

	06A	07A
Net debt (cash) (\$M)	(5.9)	(2.0)
Total assets (\$M)	7.1	3.3
Net debt/equity (%)	(89.0)	(76.7)
Net interest cover (x)	n/a	(188.9)
NTA per share (\$)	0.08	0.03
Current ratio (x)	13.1	4.5

**As at 30-Jun-07**

Net debt (cash) (\$M)	(2.0)
Net debt (cash) / shr (\$)	(0.02)
Net debt (cash) / Mkt Cap (%)	(5.0)

**Substantial Shareholders**

M Stang	19.9%
B Stang	15.5%
S Kritzler	15.4%

**Board**

- M Stang (Non-executive Chairman)
- H Jones (Executive Director, Chief Executive Officer)
- S Kritzler (Non-executive Director)
- B Stang (Non-executive Director)

**Industries Of Operation**

AEI operates in the large markets of water treatment, energy reduction and indoor air quality, with a total estimated opportunity value of over \$5B. There is a growing appreciation that the current methods of dealing with biological contamination in the air-conditioning and refrigeration systems in buildings, the food industry and bulk water systems are deficient, resulting in system inefficiencies, energy wastage and an unhealthy indoor environment.

**Differentiating Factors**

AEI enjoys broad international patent protection on its technologies and a complete suite of products to address the customer's specialist biological contamination issues. Importantly, AEI's technologies are focused on "prevention" rather than "cure" and provide ongoing protection of the customers' capital assets and staff, thereby optimising the hygiene, energy and productivity benefits.

**Recent Announcements**

**31 August 2007:** FY07 operating revenue increased 13.2% to \$1.76M. The company posted a \$4M net loss for the period. The company maintained a cash burn rate of \$270K per month and retains \$2.6M cash on hand. The company is predicting a solid 12-24 month period as revenues from several US deals start to materialise and the company looks to expand its Asian distribution deal with Trane. The water business is also expected to grow, with an international partner expected to support the product from early CY08.

**26 June 2007:** AEI received preliminary results from the trial, initiated in Feb-07, to test AerisGuard's cool room performance solutions. The outcomes suggest that an Australia wide reduction of around 74,500t of green house gases could be achieved. The technology delivered a reduction in cool room temperature, a reduction in the variability in cool room temperature and an increase in evaporator cooling capacity. Improved efficiency of each cold air generating compressor was also registered.

**19 June 2007:** AEI has signed an agreement with a Fortune 500 company for the full service application of the AerisGuard technology. The company has committed to reducing green house gas emissions at its 30 facilities around the world, with a focus on its heating, ventilation and air conditioning systems. AEI will now negotiate commercial arrangements with individual sites. The agreement could potentially generate multi-million dollar revenues for AEI with full implementation to ramp up over 24 months.

**28 May 2007:** AEI's US subsidiary has acquired a 60% stake in Aeris Atlantic, gaining a foothold in the US environmental services market. Aeris Atlantic is experiencing strong growth, targeting CY09 revenues of \$11M. The acquisition is in keeping with AEI's strategy of pursuing a direct model in the US and offers the company access to existing supply contracts with several well known US companies. AEI will offer shares as consideration for the acquisition and provide a loan to finance working capital needs.

**Capital Structure**

AEI's capital structure is composed of common shares. AEI has issued options in the past and operates an Employee Share Option Plan. Total options outstanding represent less than 2.0% of the total shares and have exercise prices ranging from 47¢ to 68¢.



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