

27th May 2008

ASX Code: KSX
Speculative Buy

Capital Structure

Sector	Health Care Equipment
Share Price	A\$0.12
Fully Paid Ordinary Shares	256.80m
Options (ex \$0.10, 30/06/08)	130.74m
Options (ex \$0.05,30/06/10)	15.6m
Options (ex \$0.05, 31/07/09)	55.47m
Options (ex \$0.25, 30/10/09)	10.0m
Performance shares Class D	30.0m
Performance shares Class E	30.0m
Performance shares Class G	12.5m
Performance shares Class H	12.5m
Market Capitalisation (undiluted)	\$30.8m
Share Price Year High-Low	\$0.285-0.031

Directors

Mr Peter Marks	Executive Chairman
Prof. N Intrator	Director, CEO
Prof. N Gavriely	Executive Director, CMO
Dr. H Pinski	Non-Executive Director
Mr N. Logaraj	Non-Executive Director

Major Shareholders

Karmel Medical Acoustic	10.60%
Medic Vision Limited	4.78%
Walthamstow Pty Ltd	3.59%
HSBC Custody Nominees	3.57%
Mr Ian Barrie Murie	2.96%

Analyst

Industrial Analyst	
Dennis Trlin	+61 8 9321 3277

Share Price Performance



Source: E-trade.com

KarmelSonix Limited

Clinical Approvals Received, Sales and Distribution to Commence..

Investment Highlights

- KarmelSonix Limited** ("KarmelSonix", "Karmel", "KSX", "the Company") is a developer, manufacturer and supplier of innovative and leading edge non-invasive acoustic tools for the management of asthma and related pulmonary disorders. The first generation of Karmel's product suite have recently received FDA (US), CE (Europe) and TGA (AUD) approval and the Company is now gearing up for first commercialisation of PulmoTrack® in Q3 2008 to be followed up by up to six new products over the next twelve to eighteen months.
- Formation of Scientific and Medical Advisory Committee** - KarmelSonix Limited has announced the formation of a Advisory Committee that will include several leading international Asthma experts. The Committee will be chaired by Professor (Emeritus) Simon Godfrey from the Hadassah Medical Centre and Hebrew University. Other initial members include Professor Lyn Taussig from the University of Denver and Professor Lewis T Smith from the North-Western University in Chicago. The Committees role will be to provide advice to the board of KarmelSonix on the clinical incorporation of Karmel's technology into mainstream medicine, customisation of current and future products and on the scientific basis of Acoustic Asthma Management. The credibility of those currently on the board will help to ensure a smooth passage of Karmel's suite of products into the market place.
- Pulmotrack® receives TGA approval** - Pulmotrack® has received Australian approval from the Therapeutic Good Administration (TGA). The Pulmotrack® is now included on the Australian Register of Therapeutic Goods which allows for first Australian sales to commence in the near term.
- Clinical validation studies commence** - Ethical committees have given approval for six clinical studies to be conducted on Karmel's WIM-PC/WIM-CC Technologies at the North-Western Memorial Hospital (Chicago, IL), Bordeaux Hospital (France), Rambam Medical Center (Haifa, Israel) and the Beni-Zion Medical Centre (Haifa, Israel). The studies will be used to validate WIM Technologies and to evaluate the incorporation of Karmel's Wheeze Detection (PulmoTrack®) and Cough Counting (WIM-CC) Technologies for the clinical management of patients. The study pool is extensive and in excess of 200 patients will be used in these studies. These studies are being undertaken in addition to clinical research programs currently underway in Brisbane, Melbourne and Holon Israel.

Outlook

The cash position at the 31st of March was approximately A\$3.3m. The Company's cash burn has been approximately A\$550k per month to date. KSX currently has 132m KSXOA options on issue which are exercisable at \$0.10 on or before 30/06/2008. The options are currently two cents in the money and on a best case scenario would deliver in excess of A\$10m in cash, assuming in excess of 80% of options exercised. We consider the Wheezeometer™ a stand alone miniature has the potential to move KSX into a cashflow positive position by 2010 with commercial sales now likely to commence by Q2/Q3 2009. The palm sized device is portable and allows for easy to use monitoring of patients with Asthma. The average sale price of the unit is likely to be US\$250 per unit, revenue of US\$100-120 to KSX with a healthy gross margin of in excess of 60%. We consider there is considerable growth potential for this product as there is currently no other portable product in the world which is available for children to accurately and objectively monitor wheezing. **RMWise Research** continues to rate **KarmelSonix Limited** as a **Speculative Buy**.

Company Overview

Simple Business Model

KarmelSonix Limited is the parent company of KarmelSonix Israel Ltd, (KSI) from Haifa, Israel and PulmoSonix Pty Limited (KSA) from Victoria, Australia. These are both wholly owned subsidiaries of KarmelSonix.

The Company's strategy is to provide innovative access to acoustic-based clinical solutions for non-invasive monitoring of cardio-pulmonary patients in the medical market and to implement these cutting edge technologies in specific lines of devices that cover the entire span of disease management: at homes, in clinics, at hospitals and during convalescence and long-term care.

RMWise Research envisages a three pronged approach to marketing in coming months;

- Development of cost-effective, sensitive and simple-to-use clinical solutions focused on specific market needs;
- KarmelSonix positioning themselves as a leader in the provision of non-invasive patient monitoring providers;
- Direct market visibility as well as collaboration with market leaders who are currently catering to the needs of cardio-pulmonary patients.

Karmel's target market consists of patients inflicted with prevalent cardio-pulmonary disorders which includes;

- Asthma- The Companies key initial commercial focus.
- Congestive Heart Failure (CHF);
- Acute Respiratory Distress Syndrome (ARDS);
- Obstructive Sleep Apnea (OSA);
- Emphysema; and
- Chronic obstructive pulmonary disease (COPD).

Figure 1 : Wheezeometer™



Source: KarmelSonix Ltd

Regulatory Approval Overview

Regulatory approval has been received from the US Food and Drug Administration (FDA) for the WIM-PC. The approval allows KSX to market the WIM-PC in the US and is a key milestone for the successful commercialisation of the product. We consider the FDA approval of WIM-PC is a positive sign for further commercialisation of Karmel's additional products; the Personal Wheezeometer™, WHolter™ and the PulmoTrack® (wireless version). The WHolter™ unit provides a diagnostic tool for overnight study of nocturnal asthma including other ambulatory applications. The Personal Wheezeometer™ will be a home-based Asthma diagnostic tool. The PulmoTrack® is based on WIM-PC technology and will be marketed to clinics and hospitals.

KarmelSonix Limited has also received CE Mark for WIM-PC which will allow entry to the European market. In addition to this KSX has now received TGA approval for the Australian market and the commencement of an approval process for Asian markets has begun. KSX is now moving rapidly from product development to a sales and distribution focus with significant reach into global markets.

Recent history of Commercial & Development Agreements

KarmelSonix has signed a commercial agreement for the co-development and distribution for a WIM-GORD Monitor ("GORD"). The market size of GORD is substantial and affects 50 million patients in the western world. Karmel has initiated a three phase plan leading to a product for monitoring relationships between Asthma and Gastro-Oesophageal reflux. Clinical studies will commence immediately in Leuven, Belgium and Bordeaux, France with the WIM-PC™. Sandhill Scientific is a Denver Colorado based leader in the manufacturing and sales of monitoring and diagnostic devices for Gastro-Oesophageal reflux disease. Management has indicated that the agreement is likely to lead to a long term commercial relationship between KSX and Sandhill.

**"In excess of 16 million
Americans have Asthma"**

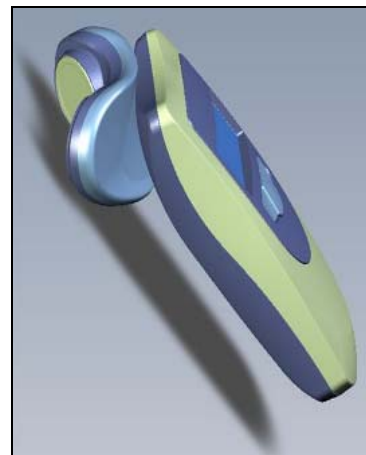
**"6.8 million children have
Asthma in the US"**

Product Portfolio

Personal Wheezeometer™

The personal Wheezeometer™ is currently Karmel's flagship product with release due for Q2/Q3 2009. The Wheezeometer™ is a palm sized device which allows for patients and family members as well as other health professionals to assess wheeze activity. The Company has indicated that the first prototype will be available in July 2008. The average retail price of the Wheezeometer™ is expected to be of the order of US\$250, revenue to KSX US\$100/120 per unit with a gross margin in excess of 60%. Currently there is little or no competition in the market place for this type of device.

Figure 2: Wheezeometer™



Source: KarmelSonix Limited

PulmoTrack®

The PulmoTrack® device based on patented technology detects and quantifies sounds from the thorax, trachea and the patients environment accurately identifying the presence of wheeze and cough. The device is the first FDA approved Pulmonary Acoustic diagnostic tool in the market and the only device which has the ability to accurately monitor children, elderly and disabled patients day or night. The PulmoTrack® is derived from the WIM-PC™ platform and can be used in clinics, hospitals, military installations and research institutes.

The first units of the PulmoTrack® will be now be available for sale in Q3 CY08. Competition for the PulmoTrack® includes the companies Deep Breeze and Stethographics. PulmoTrack® has distinct advantages over its competition. Spirometry, the current gold standard can not be used with young children, elderly or disabled unlike the PulmoTrack®. Spirometry is also effort dependent and can not monitor nocturnal asthma.

The Wholter™

The Wholter™ is an ambulatory acoustic recorder for continuous data collection based on the PulmoTrack® technology. It is the world's first device to provide physicians with accurate and quantitative measurement of the patients respiratory condition in his/her own environment. The initial release date is likely to occur in June 2008. KarmelSonix has indicated they are currently in negotiations to undertake a clinical study to be paid for by a major pharma company.

Little or no competition currently exists for the Wholter™. To date physicians have made use of questionnaires for adults in testing the conditions of the patient's environment. This has proved to be largely ineffective as most patients fail to properly identify symptoms of respiratory distress. This method of testing is highly ineffective with children as they can not usually respond to questionnaires. There is currently no device in the market which can continually track a child's respiratory condition.

Bulls and Bears

The Bulls Say

- The Company is in a strong position to capitalise on a burgeoning market which places great value on being able to effectively diagnose and manage Asthma. Costs of direct and indirect care of Asthma is in excess of US\$16 billion per year.
- Potential for numerous new products to be developed for other pulmonary ailments from core technology.
- No regulatory hurdles. CE, FDA and TGA approvals have been received.
- World's first non-invasive Asthma diagnosis and management solutions for the sick, elderly and children who do not have access to spirometry or other diagnostic tools.





The Bears Say

- Potential for new competitors to enter market place.
- Potential ramp-up of new products may be slower than anticipated.

Conclusion

Assuming KSX receives A\$10m after approximately 80% of KSXOA options are exercised, KSX should have plenty of cash reserves for future product development before it moves into a cash flow positive position by CY2010.

RMWise Research believes the personal Wheezeometer™ has the potential to be a “cash cow” for KSX and capture significant market share in a rapidly growing market. The Wheezometer™ is the only portable device in the world which can be used by asthma patients and their family to accurately assess wheeze activity. The product is to be sold in pharmacies as an OTC product with or without prescriptions. The product will also be sold to pharmaceutical companies in clinical studies to validate drugs and also to GPs, asthma nurses, paediatricians and emergency physicians.

The revenue model for the Wheezeometer™ is impressive and a major retail ramp-up of the product could provide significant free cash flows to KarmelSonix. Assuming a wholesale price of \$100 per unit, the Company would receive \$1,000,000 for every 10,000 units sold. Whilst unit sales are difficult to quantify, sales of Wheezometer™ could be substantial considering the captive market that exists globally from concerned parents and caregivers. In excess of 6 million children have Asthma in the US and there are currently no products in the marketplace for home use which can effectively monitor wheezing in young children.

RMWise Research considers the KarmelSonix' product offering offers plenty of leverage for investors into a market which has to date been neglected by major medical device companies. There is significant market growth potential in the diagnosis and management of asthma through non-invasive means. KarmelSonix' product offering addresses the needs of a highly captive market which places great value on the ability to be able to effectively monitor and diagnose asthma in children, the elderly and disabled. **RMWise Research** rates **KarmelSonix Limited** as a **Speculative Buy**.

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RMWise Research Recommendation Categories

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Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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