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MORNING MEETING NOTES
OCTOBER 25, 2005

Recommendation: Buy
Target Price: $7.15

Prism Medical Ltd. (PM-TSXV)

Two Trends Support Long-Term Growth

Current Price	$5.07	Shares Outstanding (MM)	
52 Wk High	$5.40	Basic	5.2
52 Wk Low	$3.35	Diluted	8.8
Cash (MM)	$1.4	Mngt & Dir Basic	2.3
Total Debt (MM)	$15.9	Mngt & Dir Dil.	5.0
BVPS	$3.16	Market Cap.	$26.1
Price/Book	1.6x	Float	$26.1
Dividend	-	EV	$40.6
Dividend Yield	-		

Fiscal YE Nov. 30		2004A	2005E	2006E
Sales	Q1	$5.3	$9.7 A	$10.5
	Q2	$9.1	$15.9 A	$16.0
	Q3	$6.8	$12.5	$15.0
	Q4	$7.9	$10.0	$11.5
Sales	FY	**$29.1**	**$48.1**	**$53.0**
EBITDA (MM)	FY	**$3.6**	**$6.3**	**$8.0**
Diluted EPS, adj.	Q1	$0.02	$0.06 A	$0.05
	Q2	$0.18	$0.17 A	$0.20
	Q3	$0.04	$0.08	$0.16
	Q4	$0.00	$0.03	$0.04
Diluted EPS, adj.	FY	$0.25	$0.32	$0.45
Sales y/y chg			66%	10%
EV/Sales		1.4x	0.8x	0.8x
EV/EBITDA		11.2x	6.4x	5.1x
P/E		-	15.6x	11.2x

Company Description:

Prism Medical Ltd. is a manufacturer and distributor of products for the mobility-impaired, including ceiling hoists, floor lifts and bathing products. The company currently has operations in the UK and Canada and is focussed on expanding its US presence. It operates through subsidiaries, including Waverly Glen Systems, Westholme, Tricare/Freeway, and Carefree Lifting. We expect the company will continue to grow organically and through acquisitions.

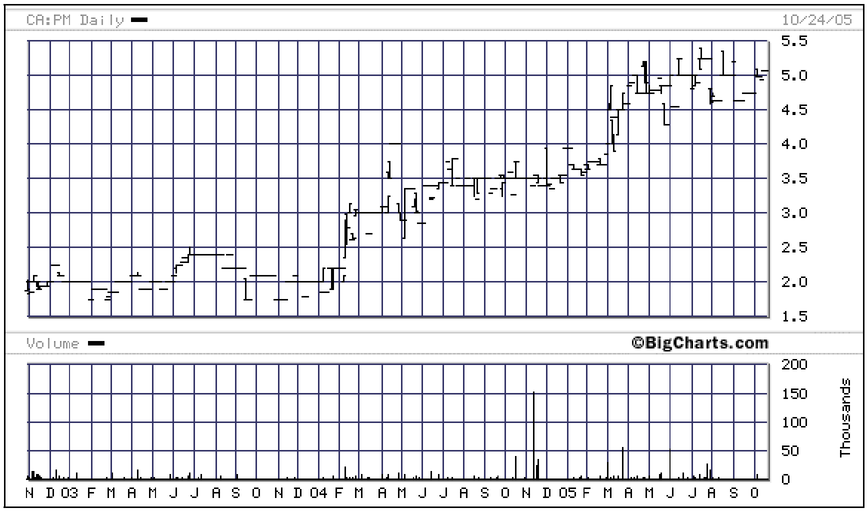
Unless otherwise denoted, all figures shown in C$

Investment Thesis:

Over the coming years, Prism Medical should continue to benefit from two trends driving the demand for its products focused on assisting the mobility-challenged. The first is logical – with more aged people in the general population comes demand for additional devices to help the mobility-impaired. The second is related to caregivers – back injuries in nurses and caregivers resulting from the movement of patients are one of the leading causes of on-the-job injuries resulting in time-off and high insurance costs. Given the average age of nurses in North America (over 45) and the shortage of qualified caregivers currently faced by health care systems, we are re-initiating with a Buy ranking and $7.15 target price.

Highlights:

- **Business In The UK And Canada Is Growing And The US Is Just Starting**
  With government sponsorship in the UK, the market for Prism's products is more developed than Canada and the US. Canada has begun to see funding and more is expected, and the US is embarking on what should be an extended period of demand in both the hospital/institutional settings and the home segments. Cost:Benefit analysis studies point to an 18-month payback period and while sales will likely be lumpy, we expect continued growth in demand over the foreseeable future driven by the economics in institutional settings and pure necessity in homecare.
- **Conservative Growth Curve Points To Valuation Potential Of $7.15+**
  Beyond demographic trends, we expect Prism to continue adding to distribution, assembly and product depth through acquisitions. Taking into account conservative estimates, we arrive at a $7.15 target price and recommend the stock as a Buy.



Source: BigCharts.com, October 24, 2005

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Prism Is A Long–Term Investment Candidate Targeted At A Niche, But Growing Industry: The market for Prism's products is driven by two trends; growth in the population segment utilizing these products, and, perhaps more importantly, a realization that back injuries resulting from the manual positioning of patients are a costly, and preventable stress on the healthcare system. Mobility-impaired individuals in home, hospital and institutional settings utilize ceiling hoists, shower chairs, and the ancillary products manufactured by Prism's subsidiaries. While competition is fairly homogeneous (but limited – there are six principal ones) in its offerings, the company has had success in Canada and the UK by a combination of purchasing established, profitable brands and distributing them through its expanding dealer network. Looking ahead, we expect continued growth driven by the two trends mentioned and future acquisitions. **Our estimates are conservative in magnitude and support our DCF-based target price of $7.15 and Buy recommendation.** However, investors should be able to tolerate quarterly fluctuations given the potentially "lumpy" nature of demand.

The Avenues For Growth Are Numerous: We have mentioned the trends driving demand and they carry over to homecare, hospital and institutional environments. In each of the company's geographic regions, Prism's varying strengths are creating opportunities to grow through enhancing its operations. Of the three regions it is active in – the UK, US and Canada – the US holds the greatest opportunity, and is in the earliest stage of development at less than 5% of the company's total. Our belief is that the US could be a greater opportunity than the other two regions combined. However, the company is in the early stages of implementing its strategy to address this market, making the primary risk the execution of this expansion. Beyond the regional avenues are opportunities to increase the product portfolio. The company has primarily initiated growth through acquisition, and we do not expect this trend to stop. This leads us to believe the story will be constantly evolving, especially as Prism gets more aggressive in the US. The company has a proven track record of success in the UK and Canada, and we believe investors will benefit by taking a position in this niche, growing company with clear demographic trends supporting secular growth for years to come.

The Secular Growth Trends Are Strong: To recap Sprott's previous research on Prism, North American demand for patient lifts is expected to grow at a 17% CAGR from 2001 to 2008 according to Frost & Sullivan. Institutional growth is expected at a modest 10% and home healthcare at 21% over the forecast period. The exit growth rate in the study for 2008 is expected to be 18% with institutional sales accelerating to 12%. Driving the growth in home sales is the aging population. In a home setting, mobility-challenged individuals and their support should be expected to increasingly rely on devices to assist in repositioning. Expecting a homecare assistant or family member to be able to provide support for a mobility-impaired individual is a recipe for potential injury to both parties. It is the prevention of this risk of injury which is the primary reason we can rationally expect patient lift sales to increase. The aging population only serves to highlight this risk and increases its prevalence. The introductory note entitled *Doing The Heavy Lifting In Health Services* was published March 16, 2005, by the previous analyst Brandon Osten and can be found on our website.

In The UK, It Is Prohibited To Manually Lift More Than 35 Lbs In A Health Environment: This policy is well ahead of what we have seen in most regions of North America, but the cost:benefit is clearly recorded and we expect North American markets to eventually follow. In the UK, the government has also realized that what makes sense in the institutional segment should also in the home setting. As a result, homecare lifts are "fully funded" by the government. In Quebec, there is now a "no-lift" policy in institutional settings and B.C. has seen increased institutional penetration as a result of pressure from the WCB. Government-funded programs are becoming more abundant in B.C. and Ontario. Ontario had a $60MM program in place for mobility assistance and there are currently RFPs out for an additional $29MM program for Ontario in 2006 (we would expect to begin hearing back on these RFPs in late December 2005). In the US, the State of Texas "…has enacted the first state law that requires nursing homes and

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hospitals to implement safe patient handling programs for nurses. Facilities must create policies to control the risk of injuries to patients and nurses when patients are lifted, transferred, repositioned or moved." (WING USA) While the law stops short of mandating the policies, it is a first step and a big step in the realization of the problem at a state level. The broader realization of this problem should clearly lead to increased patient lift sales.

Payback Based On Direct Costs Is Approximately 18 Months: Direct costs primarily take into account the insurance costs of caring for injured workers. When indirect costs such as rescheduling, training, and others are considered, the payback is considerably faster (we've had discussions where it has been estimated at three-six months). Disruptions in the workplace are costly events. Compounding the issue is the fact that there is a nursing shortage in North America. Taking into account that the average age of North American nurses is over 45, there comes a point where institutions trying to attract nursing staff would be better off having no-lift policies in an effort to differentiate themselves and create the safest working environment possible. In 2000, healthcare workers had more work-related musculoskeletal injuries than workers in any other industry, and "studies of back-related workers compensation claims reveal that the highest claim rates of any occupation or industry." (http://nursingworld.org/handlewithcare/factsheet.pdf). There is very clear case why the market for patient lifts should continue to grow, and with only one of the US states with legislation to date, we believe this market holds the largest opportunity over the coming years.

How Will Prism Medical Participate? In the UK, which has historically accounted for over 60% of revenue, we expect it is business as usual. The company manufactures and distributes its products through its Westholme, Freeway, Tricare and Carefree divisions. Sales are primarily focussed on the homecare market. Growth opportunities come from vertically integrating products its distribution business is forced to source from other manufacturers and bringing the production in-house, expanding its distribution footprint, and targeting more institutional sales. Given the hospitable environment in the UK for Prism's products, we expect continued organic growth at the market pace, which has been estimated at 10% enhanced at times by acquisitions.

In Canada, Prism Estimates It Has 50% Market Share Outside Of Quebec: The company distributes its products through homecare dealers. The company's primary reseller is Shopper's Drug Mart's Home Health division. In institutional sales, it will typically go direct and partner with its homecare channel for installation and service. Given the scale of its distributors, we would not expect that Prism would attempt to move into this channel through acquisition. We anticipate continued growth with the market in homecare sales and large contracts in the hospital settings as the provincial governments find more funding for the installation of ceiling lifts. In Quebec, the institutional market is dominated by its competitor BHM which was purchased by Arjo, another competitor, and there is not much opportunity for growth beyond the homecare market. However, in B.C., it is estimated that 40% of the beds in institutions that will ultimately require ceiling lifts have not been provided with one, and in Ontario, that number is closer to 90%. As mentioned previously, the Ontario government is anticipating spending $29MM on ceiling lifts in 2006. Candidates are currently submitting bids and we expect that Prism should maintain its 50%+ success rate in competitive situations. The potential from this contract means that f2006 could be better than f2005 in Canada. Also keep in mind that as Prism vertically integrates new products into its production, there is the opportunity to launch these additions into the Canadian distribution channel further increasing sales.

The US Is The Largest Opportunity, But The Company Needs To Build Its Channels And That Could Take Some Time: There are a number of ways Prism could address this market. The company will likely have a manufacturing base somewhere within the States. This presence would give it the benefit of having a "Made In America" sticker. To date, the company has a limited presence through a number of distributors and has had limited success in penetrating the marketplace. One example is Florida where the

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company invested substantial time partnering with a local player. While successful in penetrating the Tampa General Hospital, an 800-bed facility in which Prism has been repeatedly asked to provide more coverage for the last four years (approximately 250 beds are now covered), the penetration of the homecare market has been a bit of a disappointment. The company needs to aggressively focus on its development of the US channels and expand its presence.

Several options exist to address the acute care and institutional markets. As we see it, this should be the priority in the short-term, especially in markets such as Texas where the legislation provides a more amenable environment. The first is purchasing something in a similar vertical with an established distribution base that the company's current products can be pushed into. The second is partnering with a large company and becoming a private label supplier into its existing channel. The third is pushing the current homecare channel more aggressively and helping them to target institutional business. The fourth is acquiring a company with a strong regional distribution network in a select market such as Texas, building it and layering in similar regional opportunities as they arise. These options are not mutually exclusive, but whatever the company does, it should be done sooner than later. The reason is that once US healthcare providers begin to introduce Prism or its competitor's products into locations they are difficult to displace. This is a sticky business as seen in Canada and the Tampa General Hospital examples. The early stages of penetration can be viewed as a bit of a land grab. Once in, if the product works, and the price is reasonable from a competitive perspective, the chances are good that the facility, or buying group or national chain will stick with a common product. Typically, institutions begin with a selection of hospital beds in one area of a hospital and roll out to the other areas over a number of years; so, the early stages are important. We are still in the early stages of the development of the US market; so, there is time, but we would be surprised if a strategy wasn't in place within the next year.

Valuation Is Compelling; Re-Initiating With A Buy Recommendation: We expect earnings of $0.32 per fully diluted share in f2005, a 28% improvement over the previous year. Looking forward to f2006, our estimate climbs to $0.45. Our five-year DCF takes into consideration the conversion of $11MM in convertible debentures at $3.75. Utilizing a 4% terminal growth rate (conservative given the 18% expectation for 2008 from Frost & Sullivan) and a 10% discount rate, we arrive at a value of $7.15. This supports our $7.15 target price implying a 16x multiple of f2006 earnings. From a rational perspective, this level doesn't seem excessive given the five-year revenue CAGR expectation of 15.8% and earnings per share forecast of 29.6% growth over the same period. Earnings can be "lumpy" depending on the timing of large contracts as we saw in Q2/F05 (the bulk of the company's proceeds of the 2005 Ontario contract flowed through in Q2 which also led to slightly lower margins than typical); so, investors should be able to weather the quarterly fluctuations. In our estimates, we haven't included the potential of any acquisitions. With $4MM in available credit lines, the company will likely require funding in some form to aggressively pursue its growth strategy. Past acquisitions have proven accretive, however, and we would be very surprised if this trend didn't continue. **We are re-initiating with a Buy recommendation and a $7.15 target price.**

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SPROTT SECURITIES INC.

Prism Medical Ltd.
Canadian GAAP Income Statement

Fiscal YE November 30 ($000s)	**2003A**	**2004A**	**2005E Q1**	**Q2**	**Q3E**	**Q4E**	**2005E**	**2006E**
Sales	$21,888	$29,055	$9,742	$15,891	$12,500	$10,000	$48,134	$53,000
Cost of Goods Sold	13,077	16,696	5,419	9,945	7,700	5,800	28,864	31,500
Gross Profit	8,812	12,359	4,324	5,946	4,800	4,200	19,270	21,500
Expenses:								
Selling and Administrative	6,808	8,623	3,091	3,311	3,250	3,300	12,951	13,525
Amortization	$ 517	$ 1,333	$ 404	$ 378	$ 397	$ 400	$ 1,578	$ 1,603
Others	-	121	-	-	-	-	-	-
Total Expenses	7,325	10,078	3,494	3,689	3,647	3,700	14,529	15,128
Operating Income	$1,487	$2,281	$830	$2,257	$1,153	$500	$4,740	$6,372
Other Expenses:								
Interest Expense	(262)	(497)	(383)	(380)	(380)	(373)	(1,515)	(1,418)
Total Other Expenses	(262)	(497)	(383)	(380)	(380)	(373)	(1,515)	(1,418)
EBT	1,225	1,784	447	1,877	773	128	3,225	4,954
Income tax	378	611	113	575	237	39	963	1,536
EBT from Operations	1,225	1,784	447	1,877	773	128	3,225	4,954
Shares Outstanding								
Basic	3,544	4,181	4,862	5,154	5,875	5,875	5,875	5,875
Fully Diluted	4,511	4,856	8,698	8,780	8,780	8,780	8,780	8,780
Earnings per Share								
EPS - Basic	**$0.24**	**$0.28**	**$0.07**	**$0.25**	**$0.09**	**$0.02**	**$0.39**	**$0.58**
EPS - Diluted	**$0.20**	**$0.25**	**$0.06**	**$0.17**	**$0.08**	**$0.03**	**$0.32**	**$0.45**
MARGIN ANALYSIS								
Gross Margins	40.3%	42.5%	44.4%	37.4%	38.4%	42.0%	40.0%	40.6%
EBITDA Margins	9.2%	12.4%	12.7%	16.6%	12.4%	9.0%	13.1%	15.0%
EBIT/Operating Margins	6.8%	7.9%	8.5%	14.2%	9.2%	5.0%	9.8%	12.0%
EBT Margins	5.6%	6.1%	4.6%	11.8%	6.2%	1.3%	6.7%	9.3%
Net Income Margins	3.9%	4.0%	3.4%	8.2%	4.3%	0.9%	4.7%	6.5%

I, Stephen M. Andersons, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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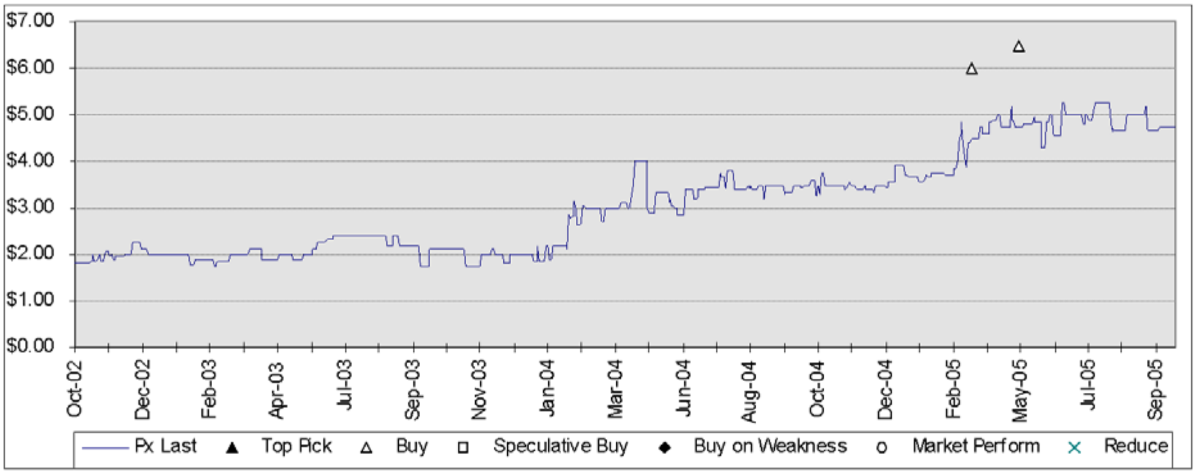
Source: Sprott Securities Inc.



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Buy or Top Pick	70%
Market Perform	25%
Reduce	4%
Not Rated	1%

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Buy or Top Pick	45%
Market Perform	35%
Reduce	0%

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Reccomendation / Target Chg

Date	C$
06-Jul-05	- (U.R.)
02-May-05	6.50 (B)
16-Mar-05	6.00 (B)

Updated September 2005

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RECOMMENDATION TERMINOLOGY

Sprott's recommendation terminology is as follows:

Top Pick	our best investment ideas, the greatest potential value appreciation
Buy	expected to outperform its peer group
Market Perform	expected to perform with its peer group
Reduce	expected to underperform its peer group

Our ratings may be followed by "(S)" which denotes that the investment is *speculative* and has a higher degree of risk associated with it.

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