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Toll Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 925 South Federal Hwy., 6th Floor ♦ Boca Raton, FL 33432

INSTITUTIONAL RESEARCH

Healthcare & Biotechnology

UPDATE REPORT

Haemonetics Corp. (HAE)

Automated Whole Blood Collection System will Address Additional \$1.6 billion Market Opportunity

BUY

June 3, 2008

John M. Putnam, CFA
Senior Analyst
(561) 208-2950
jputnam@dawsonjames.com

Current Price

\$55.91

Target Price

\$65.00

Investment Highlights:

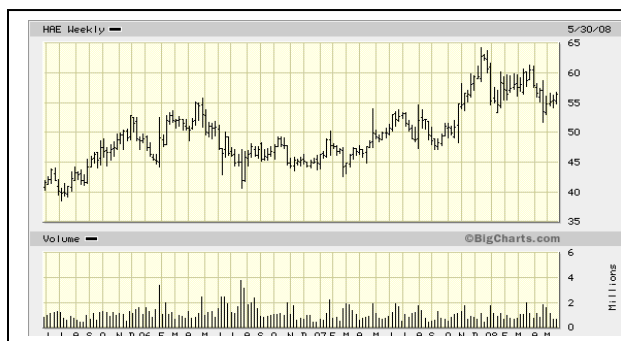
- HAE rapidly becoming the complete solution for managing the collection, processing and administration of blood and related products. Competition is falling farther behind.
- Company announces the development of an automated whole blood collections system which it believes opens up to it a \$1.6 billion market opportunity.
- HAE has made good progress with its Arrayx acquisition made almost two years ago. Arrayx's HOT technology (holographic optical trapping) which can be used to perform blood typing in minutes, not hours or days.
- HAE is the world leader in providing a full range of products to the plasma fractionation industry with a worldwide share of 65%.
- We are maintaining our fiscal 2009 operating EPS estimate to \$2.37 and our revenue estimate of \$569.

Stock Data

52-Week Range	\$47.13-\$64.29
Shares Outstanding (Mil)	25.7
Market Cap. (\$Bil)	\$1.42
Average Daily Volume	228,600
Book Value/Share	\$19.27
Price/Book	2.9x
Cash / Securities (\$Mil)	\$133.6
Cash/Share	\$5.21
Insider Ownership	11.4%
Institutional Ownership	83.9%
Debt (\$Mill)	\$24.3
Dividend/Yield	N/A
Short Interest (\$Mil) / %	\$137.0 / 10.5%

Management

Chairman, CEO & Pres	Brad Nutter
CFO & VP Finance	Chris Lindop
COO	Brian Concannon
President-Donor Div.	Peter Allen



Price target and ratings changes over the past 3 years:
Initiated September 26, 2006 – Buy – Price Target \$55.00
Update January 31, 2008—Buy—Price Target \$65.00

Estimates (Mar 31)	2007	2008	2009E
Sales	\$449.0	\$516.5	\$568.5
ADJ EPS	\$2.04	\$2.10	\$2.37
Net Inc. (Loss) (\$Mill)	\$49.1	\$52.0	\$59.1

See last page for important disclosures and analyst certification.

Key Points

- ✓ **Management Presents Compelling Case At Investors Conference for Five Year Annual Revenue Growth of 10-12% and Operating Income Growth of 12-15%**
- ✓ **Announces Automated Whole Blood Collection System**
- ✓ **Remains The Most Fully Integrated Blood Management Solutions Company**
- ✓ **Fiscal 2009 Revenue Growth Guidance 8-11%**
- ✓ **Adjusted EPS Guidance--Up 10-14%--\$2.31-\$2.41**
- **Based on our belief that HAE can indeed post annual, low double-digit revenue, and operating income growth of 12-15 % over the next five years, we believe that the stock deserves to sell at a 25-30X P/E. Based on our fiscal 2009 estimate of \$2.37, we reiterate our target price of \$65.00 and our BUY recommendation.**
- **We are also reiterating our belief that HAE will achieve double digit revenue growth in fiscal 2009 (March) driving revenues to approximately \$568 million and realize adjusted EPS of \$2.37, an increase of 13.8%. Our confidence stems from our belief that double digit growth in donor division is being driven by a growing realization on the part of its customer base that Haemonetics is the only company in the industry to offer a complete blood management solution including hardware, disposables and most importantly software for managing the blood supply chain.**

We believe there are five takeaway messages from the recent investor conference including:

- **First—HAE’s ultimate goal is to manage the entire blood supply chain from the arm of the donor to the arm of the patient which will drive greater efficiency, lower costs and ultimately provide better patient care.** In addition to having acquired software systems that help manage the donation and processing of blood, HAE acquired Haemoscope Corporation's TEG Thrombelastograph Hemostasis Analyzer. The TEG system predicts the likelihood a patient will bleed or clot excessively and analyzes overall blood clotting ability. This aids surgeons in determining how many units of blood products will be needed for a procedure and eliminates the disposal of blood that is not required. For example, two units of blood arrive in surgery with an embedded cost of between \$500 and \$1,000. Eliminating one or both units can result in a substantial savings to the hospital. Also eliminating a transfusion can reduced adverse transfusion reactions. HAE sighted an example of a hospital in which it was not selling any products or services. By demonstrating to the CEO of the hospital that it could eliminate \$1.5 million per year in wasted blood products, it now receives approximately \$1 million in annual revenue. In our opinion, HAE has been successful in transitioning itself from a medical device company to “The Blood Management” company. None of HAE’s competitors offers the breadth of products, software and consulting services provided by the company.
- **Second—HAE announced that it has in development, an automated whole blood collection system that could revolutionize the manual collection of 40 million units of blood on a worldwide basis. The system will address the \$1.6 billion market for manual collection, a**

market that until now, HAE has not really focused upon. This opportunity will be incremental to the \$2.4 billion market opportunity the company's product offering currently addresses. The system will be able to collect 50 to 150 donations and transport them to be processed. It will incorporate software and an onboard computer to manage the data involved with the donor and the donation, fulfilling all regulatory requirements. The system is designed to pull blood from the donor which will result in less damage to red blood cells and higher quality donation. It will utilize a smaller needle, improving the donor's experience and will require less time for the collection. All of these features will result in a reduction of the 4% to 5% of all donations that are discarded because of poor quality. HAE expects to have the system in the market place in less than 24 months.

- **Third—HAE has made good progress with its Arryx acquisition made almost two years ago. Arryx's HOT technology (holographic optical trapping). The system has been perfected over the past year and is able to identify biological and molecular structures down to the size of a single virus.** The first application of the technology HAE intends to pursue is that of blood typing, a \$500 million market potential. Utilizing one drop of blood and one drop of reagent, the current version of the system can perform a blood typing in five minutes as compared to having to send out two vials of blood to a central lab for processing that can take many hours to even days. HAE believes the technology is applicable to other diagnostic applications both in blood such as HIV and hepatitis testing, an additional \$2 billion opportunity and for other diagnostics, another \$3 billion market opportunity. The blood typing application could be only 12 to 18 months away with the diagnostic applications probably 24 months out.
- **Fourth—HAE enjoys very high market share in the sectors it currently addresses. For example, it dominates the plasma collection market with long-term supply agreements with the world's largest plasma fractionators. In fact, it recently signed a multi-year supply contract naming Haemonetics as Octapharma's preferred provider of plasma collection technology in the United States. This in addition to the agreement HAE had with Octapharma in Europe.** Octapharma, a Swiss-based company, is an independent plasma fractionation specialist, the largest privately owned plasma products company in the world. One of the top global plasma fractionators, Octapharma reported fiscal 2006 sales of euro 752 million with 37% growth year over year and has averaged revenue growth of 20% since 1995. The company owns five state of the art fractionation facilities in Austria, France, Sweden, Germany, and Mexico. We estimate that HAE probably controls 65% of the worldwide plasma fractionation market and perhaps as much as 75% of the U.S. market. While small in comparison to whole blood collection, HAE has the only system, Cymbal for collection of double red blood cells. The Cymbal is highly portable making it the ideal system to collect double red blood cells, 70% of which are collected away from the blood bank in mobile collection settings. These markets should continue to grow strongly, especially the plasma market, because of robust demand for IVIG (intravenous immunoglobulin), used in the production of many pharmaceuticals.
- **Fifth—HAE should experience improved profitability over the next several years as the result of improved gross margins and the positive leverage from restructuring its operation around the world.** Management believe gross profit should improve over the next two years by 300 basis points reflecting product line extensions, some price increase already negotiated with its large plasma customers, structural cost reductions and a positive impact from currency. HAE's gross margin for fiscal 2008 was 50%. Over the past five years HAE has achieved positive drop through of about 65% of incremental gross profit dollars, which should continue to be the case. However, two factors will limit bottom line leverage including lower interest income being earned on the

company's substantial cash position, and a rising tax rate from 32.8 up to between 34% and 34.5%. Overall, EPS should grow between 10% and 14% over the next five years.

- **Management issued no change in guidance for fiscal 2009. Revenues are now expected to grow 8% to 11%, putting it in a range of \$558 million to \$573 million. EPS guidance is at \$2.31 to \$2.41 on an operating basis excluding restructuring expenses of \$7 million to \$8 million, an increase of 10% to 14%. The GAAP EPS range is \$2.14 to \$2.21. Our estimate calls for revenues of \$568 million, adjusted EPS of \$2.37 and GAAP EPS of \$2.21.**

We believe investors should continue to focus on HAE's opportunity in plasma which appears to us to have strong momentum over the next two to three years. We also believe the company is demonstrating strong revenue balance with emergence of its software and services business and its success with new products which we believe will experience stronger growth in fiscal 2009. Therefore, we continue to rate the stock a BUY.

Risks

- **Regulatory** – Haemonetics relies on its products receiving approval from the Food and Drug Administration and other regulatory agencies. The company currently has several products under development that must go through the approval process prior to commercial availability. Any delay will negatively impact the company. Additionally, the blood collection and banking industry is highly regulated by the FDA and other agencies and as such, any change in the agency's rules controlling the industry, could delay the adoption of Haemonetic's technologies and products.
- **Reimbursement** – As with many medical devices, the adoption of the company's products will depend not only on clinical science, but adequate reimbursement from government and private insurers.
- **Competition** – The market segments Haemonetics competes in, blood banking and patient blood salvage are competitive, and include large public companies. As such, periodic price increases may be difficult to attain.
- **Sector Rotation** – Haemonetics is a medical device and service company and is often held in a portfolio with other device companies. A material event affecting one company many times affects the entire group.

Haemonetics Corp.
WORLDWIDE REVENUE BY SEGMENT, FY 2008E
(\$ millions)

REVENUE	2008A					2009E				
	1Q	2Q	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
	Jun-07	Sep-07	Dec-07	Mar-08		Jun-08	Sep-08	Dec-08	Mar-09	
Disposables										
Donor:										
Plasma	\$ 36.0	\$ 37.6	\$ 41.3	\$ 40.4	\$ 155.2	\$ 41.3	\$ 41.3	\$ 47.5	\$ 46.5	\$ 176.6
Blood Bank	\$ 33.0	\$ 34.2	\$ 33.2	\$ 35.7	136.2	\$ 34.8	\$ 35.9	\$ 34.9	\$ 37.5	143.1
Red Cell	\$ 10.9	\$ 10.8	\$ 12.5	\$ 12.1	46.4	\$ 11.3	\$ 11.9	\$ 13.7	\$ 13.3	50.3
Total Donor	\$ 79.9	\$ 82.6	\$ 87.0	\$ 88.3	\$ 337.8	\$ 87.4	\$ 89.1	\$ 96.1	\$ 97.4	\$ 370.0
Patient:										
Surgical	\$ 16.7	\$ 15.2	\$ 19.0	\$ 21.2	\$ 72.1	\$ 17.5	\$ 16.0	\$ 19.9	\$ 22.2	\$ 75.7
OrthoPat	\$ 8.2	\$ 7.8	\$ 9.1	\$ 9.2	\$ 34.3	\$ 9.2	\$ 8.9	\$ 10.4	\$ 10.5	\$ 39.0
Total Patient	\$ 24.9	\$ 23.1	\$ 28.1	\$ 30.4	\$ 106.4	\$ 26.7	\$ 24.9	\$ 30.4	\$ 32.7	\$ 114.7
Total Disposables	\$104.8	\$105.7	\$115.0	\$118.7	\$ 444.1	\$ 114.2	\$114.0	\$126.4	\$130.1	\$ 484.7
Equipment	\$ 7.0	\$ 6.8	\$ 8.5	\$ 10.5	\$ 32.8	\$ 8.7	\$ 7.4	\$ 9.3	\$ 11.5	\$ 36.8
Misc./Services	\$ 10.2	\$ 8.7	\$ 11.1	\$ 9.6	\$ 39.5	\$ 12.7	\$ 10.3	\$ 13.1	\$ 11.0	\$ 47.0
Total Revenues	\$121.9	\$121.2	\$134.6	\$138.7	\$ 516.5	\$ 135.5	\$131.6	\$148.8	\$152.5	\$ 568.5

PERCENT CHANGE Y/Y

Plasma	13.0%	17.2%	27.5%	31.6%	22.3%	15.0%	10.0%	15.0%	15.0%	13.8%
Blood Bank	5.3%	7.8%	7.3%	11.0%	7.9%	5.3%	5.0%	5.0%	5.0%	5.1%
Red Cell	3.2%	4.5%	12.1%	7.2%	6.8%	3.2%	10.0%	10.0%	10.0%	8.4%
Total Donor	8.3%	11.4%	16.8%	18.9%	13.9%	9.4%	7.9%	10.5%	10.3%	9.5%
Patient:										
Surgical	-2.9%	0.8%	11.7%	22.7%	8.3%	5.0%	5.0%	5.0%	5.0%	5.0%
OrthoPat	8.4%	10.8%	21.3%	9.5%	12.4%	12.5%	13.0%	15.0%	14.0%	13.7%
Total Patient	0.5%	4.0%	14.6%	18.4%	9.6%	7.5%	7.7%	8.2%	7.7%	7.8%
Total Disposables										
Equipment	24.3%	55.1%	63.4%	49.9%	47.6%	24.3%	8.0%	9.0%	9.0%	12.0%
Misc./Services	55.7%	11.9%	18.0%	-4.7%	17.1%	25.0%	18.0%	18.0%	15.0%	19.1%
Total Revenues	10.2%	11.7%	18.6%	18.7%	14.9%	11.1%	8.6%	10.5%	9.9%	10.1%

NM = Not Meaningful

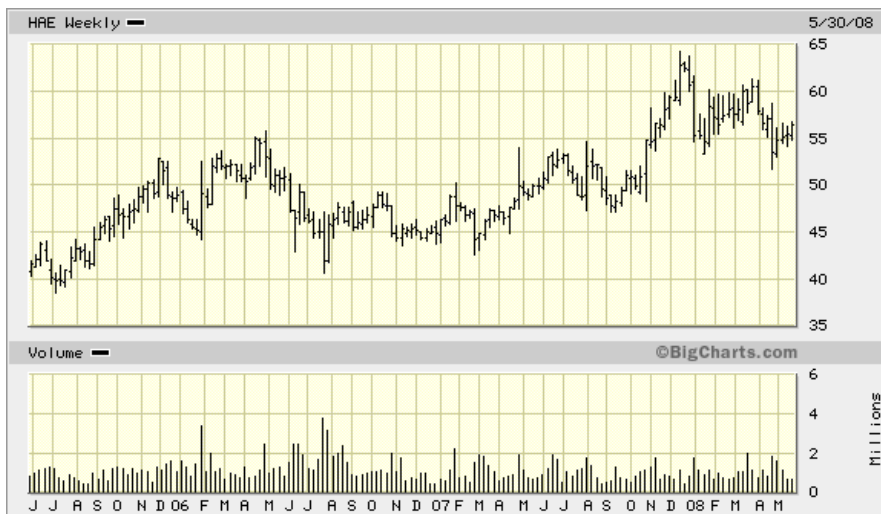
Source: Company and Dawson James estimates

Haemonetics Corp.
INCOME STATEMENT, 2008E-2009E
(\$ millions, except per-share data)

Year ends	April 1, 2008A					April 1, 2009E				
	1Q	2Q	3Q	4Q	2008	1Q	2Q	3Q	4Q	2009
	Jun-07	Sep-07	Dec-07	Mar-08		Jun-08	Sep-08	Dec-08	Mar-09	
Net Sales	\$ 121.9	\$ 121.2	\$ 134.6	\$ 138.7	\$ 516.5	\$ 135.5	\$ 131.6	\$ 148.8	\$ 152.5	\$ 568.5
Costs and Expenses:										
Cost of products sold	60.4	61.3	68.0	68.6	258.4	67.0	65.0	72.9	73.2	278.1
Gross Profit	\$ 61.5	\$ 59.9	\$ 66.6	\$ 70.1	258.1	\$ 68.6	\$ 66.6	\$ 75.9	\$ 79.3	290.4
R & D	6.3	6.7	5.5	5.8	24.3	6.1	5.9	6.7	6.9	25.6
S, G & A	39.4	38.5	41.4	44.0	163.5	42.7	41.5	46.9	48.0	179.1
Purchased R&D	—	—	—	—	—	—	—	—	—	—
Merger-related costs	—	—	—	—	—	—	—	—	—	—
Total Operating Expenses	45.7	45.3	47.0	49.8	187.8	48.8	47.4	53.6	54.9	204.6
Operating Income	\$ 15.8	\$ 14.6	\$ 19.6	\$ 20.3	\$ 70.3	\$ 19.8	\$ 19.2	\$ 22.3	\$ 24.4	\$ 85.7
Other expenses net (Inc.)	(2.7)	(2.0)	(1.3)	(1.0)	(7.0)	(1.0)	(1.0)	(1.2)	(1.3)	(4.5)
Earnings before income taxes	\$ 18.4	\$ 16.6	\$ 20.9	\$ 21.3	\$ 77.3	\$ 20.8	\$ 20.2	\$ 23.5	\$ 25.7	\$ 90.2
Provision for income taxes	5.8	5.4	6.5	7.6	25.3	7.2	7.0	8.1	8.9	31.1
Net earnings	\$ 12.7	\$ 11.2	\$ 14.4	\$ 13.7	\$ 52.0	\$ 13.6	\$ 13.2	\$ 15.4	\$ 16.8	\$ 59.1
Weighted Avg. shares outst. (diluted)	27.4	26.5	26.4	26.6	26.7	26.6	26.6	26.6	26.9	26.7
EPS-GAAP .	\$ 0.46	\$ 0.42	\$ 0.54	\$ 0.52	\$ 1.94	\$ 0.51	\$ 0.50	\$ 0.58	\$ 0.62	\$ 2.21
(inc. SFAS 123R, IPR&D & Restr. Chrg.)										
Earnings per share operating (diluted)	\$ 0.50	\$ 0.45	\$ 0.57	\$ 0.58	\$ 2.10	\$ 0.55	\$ 0.54	\$ 0.62	\$ 0.66	\$ 2.37
RATIOS:										
(as a percentage of total revenues)										
Gross Margin	50.4%	49.4%	49.5%	50.6%	50.0%	50.6%	50.6%	51.0%	52.0%	51.1%
R & D	5.1%	5.6%	4.1%	4.2%	4.7%	4.5%	4.5%	4.5%	4.5%	4.5%
S, G & A	32.3%	31.8%	30.8%	31.7%	31.7%	31.5%	31.5%	31.5%	31.5%	31.5%
Other expenses net (Inc.)	-2.2%	-1.6%	-1.0%	-0.7%	-1.3%	-0.7%	-0.8%	-0.8%	-0.9%	-0.8%
Tax Rate	34.0%	32.6%	31.3%	35.5%	32.7%	34.5%	34.5%	34.5%	34.5%	34.5%
Operating Margin	12.9%	12.1%	14.6%	14.6%	13.6%	14.6%	14.6%	15.0%	16.0%	15.1%
Pretax Margin	15.1%	13.7%	15.5%	15.4%	15.0%	15.3%	15.4%	15.8%	16.9%	15.9%
Net Margin	10.4%	9.2%	10.7%	9.9%	10.1%	10.0%	10.1%	10.4%	11.0%	10.4%

Source: Company and Dawson James estimates

DISCLOSURES



Initiated February 1, 2007 – BUY – Price Target \$55.00
 Update January 31, 2008—BUY—Price Target \$65.00

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	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	7	30%	4	57%
Strong Buy	3	13%	1	33%
Buy	11	48%	1	9%
Neutral	2	9%	1	50%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	23	100%	7	30%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

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