

26 June 2007

## Protonex Technology Corporation

Year End	Revenue (US\$m)	PBT* (US\$m)	EPS* (¢)	DPS (¢)	PE (x)	Yield (%)
09/05	1.76	(2.22)	(57.9)	0.0	N/A	N/A
09/06	2.32	(5.18)	(36.7)	0.0	N/A	N/A
09/07e	5.80	(7.83)	(14.9)	0.0	N/A	N/A
09/08e	11.00	(8.70)	(13.8)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

### Investment summary: Significant progress

Protonex' first-half results illustrate that the company continues to execute on its strategy of constructing reliable, high-performance portable fuel cells. We believe that the portable power market, both military and civilian, will be the first major commercial opportunity for fuel cells. In this market, fuel cells demonstrate multiple advantages over battery and generator technologies.

### Strong revenue growth and technical progress

The company's first-half results demonstrated strong revenue growth with fuel cells delivered for test and evaluation to a number of US military customers. The company is now increasing spending on development and marketing to push towards the final goal of getting its products into the broader commercial market. During this period, PTX made significant progress in reducing the size, weight and cost of its fuel cells.

### Mesoscopic Devices adds breadth and depth

The recent acquisition of Mesoscopic means that Protonex is able to offer its customers multiple fuelling options, hence access to broader markets. Mesoscopic also brings a wealth of talent, which should accelerate product development.

### Commercial timing uncertain, news triggers to watch

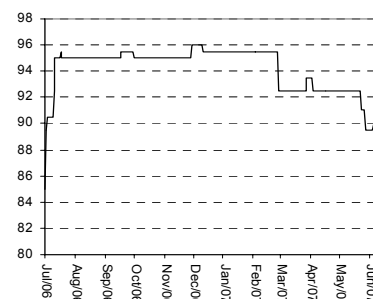
It is still uncertain when the company will be able to commercialise its products. We are expecting news soon of the company entering OEM evaluation agreements for the Valta M250 and other platforms. Such news should be positively received by investors, recognised as another significant corporate milestone.

### Valuation: Good relative value by EV/Sales

Protonex is trading at 13.9x our forecasted EV/Sales from our selected peer group of 12. This places the company in the top three by value of our group and second amongst the London stocks. The company also has the highest level of actual and forecasted sales in the London sub-group.

Price 89.5p  
Market Cap £57m

#### Share price graph



#### Share details

Code PTX  
Listing AIM  
Sector Electronic & Electrical Equip.  
Shares in issue 64.45m

#### Price

52 week High 96p Low 87p  
96p 87p

#### Balance Sheet as at 31 March 2007

Debt/Equity (%) N/A  
NAV per share (¢) 36.7  
Net cash (\$m) 14.0

#### Business

PTX develops and manufactures compact, lightweight, high-performance fuel cell systems for portable power applications between 10W and 1,000W, using PEM and SOFC technologies.

#### Valuation

	2006	2007e	2008e
P/E relative	NM	NM	NM
P/CF	NM	NM	NM
EV/Sales	25.4	13.9	8.3
ROE	NM	NM	NM

#### Geography based on revenues

UK	Europe	US	Other
0%	0%	100%	0%

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## Results: Impressive revenue growth

Protonex' results demonstrated impressive revenue growth and a series of technical achievements. Revenues increased 134% to \$2.1m, putting the company on track to deliver \$5.8m at the close of the year in September. The split between civilian and military business increased to 23% from 5%. Investors should not yet interpret this as the beginning of an expected trend. Operating costs expanded reflecting increased investment in technical and manufacturing departments, R&D and facility expansion. This increase in expenditure is expected to continue through the balance of the year and into next, as the company puts the necessary infrastructure in place to commercialise its products. We estimate that the company will consume cash at around \$10m a year for the next couple of years, becoming cash flow positive in 2010. Following April's equity financing (\$27.7m before expenses), we believe that at the current rate of cash consumption the company has adequate funds to see it through into 2011.

The significance of Protonex recent hire Dr David Edlund (the former co-founder, and Chief Technical Officer of IdaTech), as Vice-President of Reformer Development, has started to bear fruit. Dr Edlund, a recognised expert in fuel reforming and hydrogen purification, made a significant contribution to the development of the company's first reformer based fuel cell, the Valta M250, which was recently demonstrated in Hanover.

## Product portfolio

During the last six months, the company has made significant progress in raising the performance and reducing the costs of manufacturing its fuel cells. PTX has now developed its 6<sup>th</sup> generation fuel cell stack, which has lowered construction costs, component costs, size and weight. The company has also made similar achievements in the 'balance of plant' outside the stack.

**Exhibit 1: Protonex products under testing and development**

Name	Watts	Type	Fuel	Application
ProPack™ C50	50	PEM	Sodium-borohydride	Man-portable military power for use in: radio, laser targeting, GPS and Toughbooks, investigating civilian use for emergency communications, field scientists and emergency medical.
ProCore™ UAV	200	PEM	Sodium-borohydride	Quiet power source for unmanned aerial vehicles, used in surveillance, chemical/biological monitoring and border patrol.
Valta™ M250	250	PEM	Reformed Methanol	Civilian auxiliary power unit for use in: boats, recreational vehicles, emergency equipment and remote power.
Under-development	75	SOFC	Propane	Multi-purpose portable power system
	250	PEM	Reformed Methanol	Military version of the Valta™ M250.
	250	SOFC	Kerosene	Multi-purpose portable power system

Source: Protonex

Progress continues on the commercialisation of the Valta M250 and other platforms, with announcements of evaluation by OEMs expected in 2007. Protonex' largest order to date, February's \$3.5m programme from the US Army research office, is for a military version of the Valta.

## Mesoscopic acquisition

Post the half-year accounting period, Protonex acquired Mesoscopic Devices for \$12.4m.

Mesoscopic is a leader in Solid Oxide Fuel Cell (SOFC) and reformer technology. The key significance of SOFC technology is its ability to use commonly available fuels such as propane, petrol and diesel for the production of environmentally clean electrical power. However, SOFC is some way behind PEM as a commercial fuel cell technology. Strategically, the acquisition places Protonex as the only portable fuel cell company offering both PEM and SOFC technologies; thereby providing customers with a variety of fuelling options, and hence accessing larger markets.

To Protonex, the Mesoscopic acquisition expands the company's intellectual property portfolio, with complementary knowledge gained in SOFC, reformer and balance of plant technology.

Mesoscopic brings a team of gifted scientists and engineers to help accelerate the development of PEM and SOFC technologies. Mesoscopic also brings new customer relationships, several government programmes, and the prospect of more government work. Since inception, Mesoscopic has amassed \$13m in government contracts.

## Valuation: Good relative value on EV/Sales

At this price level, Protonex demonstrates good relative value in our fuel cell peer group. At 13.9x EV/S the company ranks third in the peer group of 12 and second in the London listed sub-group. Our EV/S analysis of 12 companies produced a range between 262.4x and 2.0x, the medium was 57.4x. As fuel cell companies strive to commercialise their products, we believe that current and forecasted sales are a good indicator of how close a company is to bringing its products to market. PTX scores well by this measure; it has the highest forecasted and historic sales out of our table of London listed companies and the second highest in the peer group.

### Exhibit 2: Enterprise value/sales analysis of selected fuel cell stocks

Note: Acta, Polyfuel & Ceramic report in Euros, US Dollars and Australian Dollars respectively, we have converted these values into Sterling at the rates below. Priced at 22 June 2007.

Name	Tick	FY	LS 22/6	Shares O/S	Mkt Cap	Debt + Min 06	Adj Cash 07	Est Ent Val 07	Est Sales 07	EV/S
<b>London</b>			<b>p</b>	<b>£m</b>	<b>£000s</b>				<b>x</b>	
Acta	ACTA	Dec	109.0	36.0	39,235	517	1,988	37,764	202	187.1
Polyfuel	PYF	Dec	38.0	57.3	21,767	0	353	21,414	1,000	21.4
ITM Power	ITM	Apr	143.0	102.1	146,001	0	32,399	113,602	1,000	113.6
<b>Protonex Tech</b>	<b>PTX</b>	<b>Sep</b>	<b>89.5</b>	<b>64.5</b>	<b>57,683</b>	<b>0</b>	<b>17,287</b>	<b>40,396</b>	<b>2,906</b>	<b>13.9</b>
Voller	VLR	Jun	24.5	23.0	5,635	0	5,309	326	167	2.0
CMR	CMF	Dec	103.0	20.3	20,909	0	8,534	12,375	320	38.7
Oxford Catalysts	OCG	Dec	124.0	37.3	46,303	101	12,814	33,590	128	262.4
Ceres Power	CWR	Jun	230.8	59.5	137,296	0	9,939	127,357	1,600	79.6
Ceramic	CFU	Jun	42.5	309.5	131,538	85	9,717	121,906	2,126	57.3
<b>NASDAQ</b>			<b>\$</b>	<b>\$m</b>	<b>\$000s</b>					
Medis Tech.	MDTL	Dec	13.5	34.9	472,792	2,569	69,580	405,781	7,070	57.4
Ballard Power	BLDP	Dec	5.0	114.2	571,000	44,945	93,609	522,336	56,450	9.3
Millennium Cell	MCEL	Dec	0.6	53.8	33,894	2,499	362	36,031	480	75.1

Source: Edison Investment Research & Bloomberg consensus

**Exhibit 3: Financials**

Year-ending September	\$'000s	2005	2006	2007e	2008e
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		<b>1,757</b>	<b>2,316</b>	<b>5,800</b>	<b>11,000</b>
Cost of Sales		0	0	(1,420)	(3,630)
Gross Profit		1,757	2,316	4,380	7,370
<b>EBITDA</b>		<b>(2,331)</b>	<b>(5,569)</b>	<b>(8,710)</b>	<b>(9,303)</b>
<b>Operating Profit (before GW and except.)</b>		<b>(2,374)</b>	<b>(5,674)</b>	<b>(9,000)</b>	<b>(10,000)</b>
Goodwill Amortisation		0	0	0	0
Exceptionals		1	0	(500)	(500)
Other		0	0	0	0
<b>Operating Profit</b>		<b>(2,373)</b>	<b>(5,674)</b>	<b>(9,500)</b>	<b>(10,500)</b>
Net Interest		150	490	1,170	1,300
<b>Profit Before Tax (norm)</b>		<b>(2,224)</b>	<b>(5,184)</b>	<b>(7,830)</b>	<b>(8,700)</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(2,223)</b>	<b>(5,184)</b>	<b>(8,330)</b>	<b>(9,200)</b>
Tax		(0)	(0)	0	0
<b>Profit After Tax (norm)</b>		<b>(2,225)</b>	<b>(5,185)</b>	<b>(7,830)</b>	<b>(8,700)</b>
<b>Profit After Tax (FRS3)</b>		<b>(2,223)</b>	<b>(5,185)</b>	<b>(8,330)</b>	<b>(9,200)</b>
Average Number of Shares Outstanding (m)		3.8	14.1	52.6	63.0
EPS - normalised (c)		(57.9)	(36.7)	(14.9)	(13.8)
EPS - FRS 3 (c)		(57.9)	(36.7)	(15.8)	(14.6)
Gross Margin (%)		100.0%	100.0%	75.5%	67.0%
EBITDA Margin (%)		(132.6%)	(240.4%)	(150.2%)	(84.6%)
Operating Margin (before GW and except.) (%)		(135.1%)	(245.0%)	(155.2%)	(90.9%)
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>		<b>275</b>	<b>430</b>	<b>13,600</b>	<b>14,300</b>
Intangible Assets		0	0	11,500	11,000
Tangible Assets		275	430	2,100	3,300
Investment in associates		0	0	0	0
Unquoted investments		0	0	0	0
<b>Current Assets</b>		<b>9,833</b>	<b>19,450</b>	<b>35,785</b>	<b>26,378</b>
Stocks		0	105	272	696
Debtors		293	362	1,050	1,959
Cash		9,507	18,707	34,463	23,723
Other		32	276	0	0
<b>Current Liabilities</b>		<b>(171)</b>	<b>(699)</b>	<b>(1,471)</b>	<b>(2,387)</b>
Creditors		(93)	(340)	(1,111)	(2,027)
Other creditors		(78)	(360)	(360)	(360)
Short term borrowings		0	0	0	0
Minority interests		0	0	0	0
<b>Long Term Liabilities</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long term borrowings		0	0	0	0
Other long term liabilities		0	0	0	0
<b>Net Assets</b>		<b>9,938</b>	<b>19,181</b>	<b>47,914</b>	<b>38,291</b>
<b>CASH FLOW</b>					
<b>Operating Cash Flow</b>		<b>(2,542)</b>	<b>(4,704)</b>	<b>(9,114)</b>	<b>(10,040)</b>
Net Interest		150	490	1,170	1,300
Tax		0	0	0	0
Capex		(126)	(256)	(1,800)	(2,000)
Acquisitions/disposals		0	0	0	0
Financing		10,967	13,670	25,500	0
Dividends		0	0	0	0
Other		0	0	0	0
Net Cash Flow		8,449	9,200	15,756	(10,740)
<b>Opening net debt/(cash)</b>		<b>(1,058)</b>	<b>(9,507)</b>	<b>(18,707)</b>	<b>(34,463)</b>
HP finance leases initiated		0	0	0	0
Other		0	0	(0)	0
<b>Closing net debt/(cash)</b>		<b>(9,507)</b>	<b>(18,707)</b>	<b>(34,463)</b>	<b>(23,723)</b>

Source: Company accounts/Edison Investment Research

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