

EQUITY RESEARCH REPORT



World Diagnostics, Inc.
OTCBB : WDIG

Randall Lewis, CFA – Analyst
December 06, 2001

Close as of: December 05, 2001
DJIA: 9,893.84
S&P 500: 1,144.79
NASDAQ Composite: 1963.10
Russell 2000: 467.84

Buy RECOMMENDATION

Fiscal Year Ending: March 31

Report Date:	December 06, 2001	Market Cap.:	\$8.32M	EPS	PE	REVS (\$M)	PS	
Stock Price:	\$0.90	Shares Out.:	9.248M	2000A	(0.41)	N/A	1.5	N/A
Price Range:	\$0.19 – 1.63	Estimated Float:	3.6M	2001A	(0.35)	N/A	2.2	1.75
Industry:	Medical Equip. & Supplies	6-12 mo. Target:	\$4.50	2002E	(0.17)	N/A	3.3	2.53
		Est. 3-Yr. Growth	73.8%	2003E	0.08	11.3	11.6	0.72

BASIS FOR RECOMMENDATION

- World Diagnostics (“WDI” or “the company”) is positioning itself through a unique online infrastructure, strategic partnerships, distributorships, joint ventures and possible acquisitions as the leading global supplier of medical diagnostics, equipment and supplies to the emerging marketplace.
- The company currently has 88 distributors in 84 countries, as well as a growing online sales base. We expect these numbers to increase dramatically in the coming quarters.
- The worldwide market for invitro diagnostics, the core of WDI’s product line, was estimated at over \$20 billion in 2000 and is expected to grow to \$26.6 billion by 2004, according to Boston Biomedical Consultants, Inc. The company is carving out a specific niche in the medical diagnostic market by targeting the emerging marketplace, which will outpace the relatively mature developed-country market by nearly 4% over the next four years.
- WDI boasts a solid management team, one that we feel does not befit a typical OTC company. The company’s management team has significant marketing experience in both the healthcare and Internet sectors, bringing expertise from such firms as Abbott Labs, Becton, Dickinson and Company, and W.R. Grace & Co.
- We are projecting revenues of \$11.6 million for the year ending March 31, 2003, representing a CAGR of 74%. Should these numbers be reached in these markets, something the larger distributors have been attempting for years, the company will be a solid acquisition candidate for the larger medical product manufacturers or distributors. Furthermore, *online* sales could very well eclipse all other revenue lines in the coming quarters, and at significantly better margins, perhaps double or more.



CORPORATE OVERVIEW

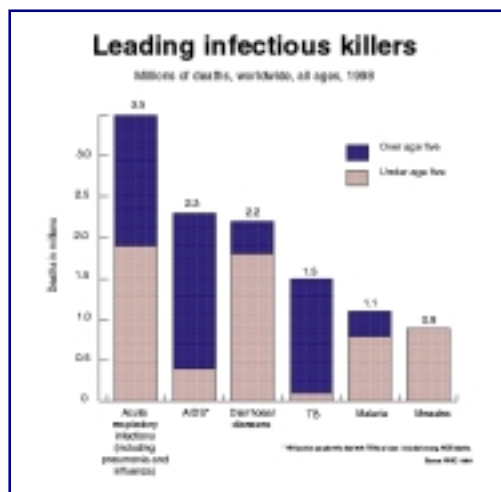
World Diagnostics, Inc., formed in 1997, is a leading provider of a wide range of medical diagnostic and laboratory products worldwide. The Company offers a simplified way to purchase those products through its GLOBALeMED system, which also provides medical professionals access to critical technical data and information, training aids and online customer support.

The Company's network of distributors and GLOBALeMED partners now covers 84 countries, offering the most comprehensive resource for most medical diagnostic tests and laboratory products, of which about 1,000 are World Diagnostic-branded. Numerous other products are also sold through distributors and directly to medical professionals, hospitals, physician offices, clinical laboratories and retail drug stores.

MEDICAL DIAGNOSTIC INDUSTRY

Market Size and Scope. Invitro diagnostics (IVD) involves the development and production of chemical and biochemical systems used in the diagnosis and monitoring of various medical conditions. During the next five to 10 years, the market for *infectious disease* tests is expected to be among the most dynamic in the invitro diagnostics industry, therefore, we have chosen to focus primarily on this market, though other segments such as population control and bioterrorism can be quite large.

The global market for infectious disease tests continues to expand as new disease states are identified, new therapies become available, and worldwide standards of living and access to healthcare improve. More importantly, within this market there is a continuing shift from conventional testing, which requires highly trained personnel and lengthy turnaround times for test results, to more technologically-advanced testing, which can be performed with less technical expertise and completed in hours or minutes. Technological advances permitting accurate testing to occur outside the traditional hospital or laboratory setting have also affected the market for diagnostic products.



It is no wonder then, that these rapid, advanced tests are the fastest growing segment in the international marketplace, being used largely by government programs as a first line of screening for disease, and doctors offices and clinics in the private sector due to their low cost, speed and convenience.

The advances mentioned above could not have come at a more needed time too. The World Health Organization estimates that more than 17 million people die of infectious diseases each year (see chart for breakdown of leading causes of death). A recent resurgence of infectious diseases has made the ability to identify microorganisms quickly and accurately even more important. Because of this, the worldwide market for invitro diagnostics was estimated at over \$20 billion in 2000 and is expected to grow to \$26.6 billion by 2004, according to Boston Biomedical Consultants, Inc.

Target Markets. The various global target markets for diagnostic products are very broad and include individual end users, medical practitioners, small, medium, and large clinics and hospitals, and government agencies. In moderately developed economies and emerging markets, price, availability of products, ease of use and technical support are all of major importance.

Market Drivers. In summation, worldwide diagnostic product sales are driven by several factors, including:

- The need for faster, easier methods to diagnose disease states or medical disorders, thus enabling effective physician response to the patient.
- Recognition that diagnostic products afford early detection of diseases and/or medical disorders.
- Prompt response to increases in infectious disease disorders through rapid diagnosis and isolation of infectious individuals.
- Government policies to contain or decrease costs to the medical and social system and to contain epidemic situations.

COMPETITION AND INDUSTRY STRUCTURE

In order to understand the positioning of WDCI versus its competition, it is important to comprehend the current and expected industry structure and stage of development. The vast majority of international end users (we are focusing our discussion on emerging countries, such as those in Latin America, Asia and Africa) typically buy from a vast array of relatively small local distributors that often stock a limited range of test kits and generally lack the expertise to provide timely delivery and technical support. Competition is based primarily on product reliability, customer service and price.

These smaller international accounts in highly fragmented markets have been less desirable for large corporations such as Roche, Abbott and Becton, Dickinson, for example, as these accounts are too expensive to be serviced. In other words, the margins are simply not there for a big pharma. Also, the inflexibility of these large corporations with respect to pricing, terms and service has led to a poor image among most emerging nations. Therefore, these sales are left to the fragmented, entrepreneurial-minded distributors, which can be individuals or small companies, mentioned above.

Most of these distributors are sellers of *either* equipment or medical supplies. Some sell a limited range of diagnostic test products. Online distributors, the majority of which are in their early stage of development, include a few buying groups, trade associations, some small niche distributors or manufacturers, a few large manufacturers, and a handful of virtual malls. Most of the retail-oriented malls, however, are under-funded and with the Internet bubble now burst, some have ceased operations. For instance, in performing our research, we found that the URL, www.discountmedmarket.com is no longer valid. This is simply to show that online distribution is also extremely fragmented, and no one business model has proven more effective or successful than any other.

On the other side of the coin from the small distributors are the major medical diagnostic companies mentioned above – Abbott, Roche, Becton, Dickinson, etc. Like many other industries in recent years, this sector has gone through a consolidation phase, both in manufacturing and distribution, forming now what can be considered an oligopoly. This oligopoly, however, is characterized by a closed system

predicated on reimbursement and really amounts to zero-sum game in many instances, particularly in the more developed countries. That is, one member's gain is another's loss.

On the international front, these firms traditionally rely on a master distributor to manage an umbrella distribution network for both public and private sector sales. Most of these companies, however, offer diagnostic tests for limited specialty areas, like hematology, or cancer or AIDS diagnoses. In addition, the major medical diagnostic companies are at a disadvantage because they are not flexible to the customs, regulations and laws of each country in which they operate. By contrast, WDI does not operate by means of a master distribution scheme, but through localized distributors that are familiar with the customs, regulations and laws of their particular country or region.

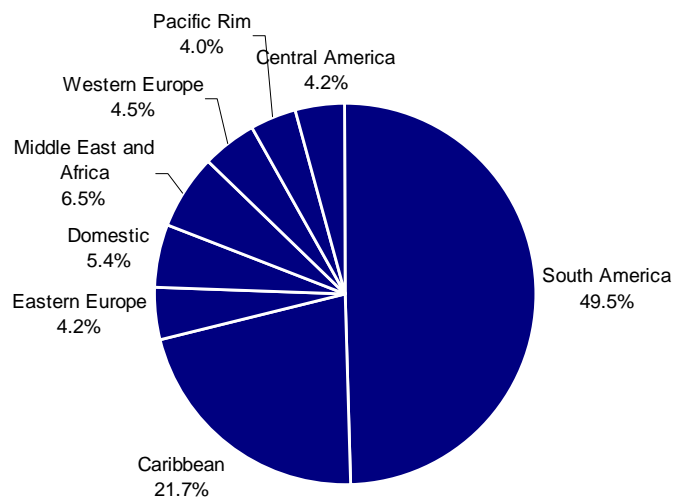
So in sum, the company is carving out a specific niche in the medical diagnostic market by targeting the emerging marketplace, which will outpace the relatively mature developed-country market by nearly 4% over the next four years, according to Boston Biomedical (8% CAGR vs. 4.6% weighted-average CAGR for the U.S., Europe and Japan). We feel this estimate of faster growth versus the developed world could be conservative.

PRODUCTS AND SERVICES

World Diagnostics currently has its own branded line of over 1,000 products, all of which are manufactured in accordance with FDA specifications and sold through local distribution networks in 84 countries. The company's strongest regional markets are South America, the Caribbean and Eastern Europe, collectively accounting for 75-80% of total sales on average.

The company offers a comprehensive suite of affordable medical diagnostic test kits that are developed to measure and detect substances related to specific health conditions. These include, among others, cancer and cardiac markers; tests that determine the presence of sexually transmitted diseases such as HIV, Gonorrhea, Chlamydia and Syphilis; infectious diseases such as cholera, tuberculosis, dengue fever, rotavirus, rubella and HCV; autoimmune disorders; allergies; and gastrointestinal abnormalities. WDI maintains its own product design and quality control without additional overhead by performing its own quality checks and handling all packaging and shipping requirements.

WDI received certification from the World Health Organization Special Program for Sexually Transmitted Diseases in 1998 for the sensitivity and efficacy of two HIV tests. The whole blood rapid HIV-1 and HIV-2 tests were designed specifically for World Diagnostics utilizing advanced technologies through genetic engineering to identify HIV 1 and HIV 2, sub type 0 and sub type C seroconverter blood markers and have a 100% positive predictor value.



There are primarily six core categories of diagnostic products that are marketed under the World Diagnostic label.

- ***Qualitative Rapid Diagnostic Tests.*** These point of care tests are used during a patient's visit at the doctor's office, produce immediate "positive/negative" results within minutes, and do not require any outside laboratory processing. They are branded under the name "Smart Check" and "Smart Strip" and test for a variety of conditions including HIV, syphilis, ovulation, pregnancy, drugs of abuse, and other infectious and immune complexes.
- ***Clinical Chemistry Reagents.*** Fundamental to all laboratory operations, these are substances used to produce a chemical reaction with human blood to detect, measure and produce results about blood chemistries that regulate body function. The result is quantitative and is customary in clinical testing.
- ***Quantitative Laboratory Tests.*** These highly sensitive tests produce quantitative results that enable an accurate and conclusive determination of a disease state. Typically, a considerable amount of time is required in obtaining test results, and they are conducted in a laboratory environment under the supervision of a skilled laboratory technician. WDI's branded "Avantage" tests are used for blood banking, infectious diseases, cancer markers, hormones, allergy, fertility, gastrointestinal, immune and other disorders.
- ***Routine Urine and Latex Agglutination Tests.*** This is a serologic test that is used to demonstrate the presence of antibodies in the blood. It is dependent upon the clumping of cells, microorganisms, or particles when mixed with specific antiserum. Latex particles are used due to their binding capacity to capture foreign substances in the blood for analysis. Although the results are qualitative, like point of care tests, they are conducted in a laboratory by a trained technician. There is an increasing demand for these products in emerging markets and are preferred by some governments because of their low cost.
- ***Laboratory Equipment.*** This category includes medical apparatus designed to process human bodily fluids and obtain quantitative information regarding blood chemistry, hormonal levels, cancer, infections and other bodily functions.
- ***Miscellaneous Laboratory Supplies.*** A vast array of disposable products common to the laboratory is available. These include plastic and glass disposables, needles, tubes, sterile containers, culture swabs, reagent containers, syringes, blood drawing devices, and thermometers among numerous others.

In addition to the distribution network, the company markets and distributes its diagnostic test kits and laboratory related products through its Web site www.GLOBALeMED.com. The company's GLOBALeMED system, which currently hosts local Web sites in 27 countries, is an integral part of WDCI's business model and will be explained further in the following section. This multi-channel strategy utilizes the traditional methods of marketing and distribution, and takes advantage of the benefits associated with electronic commerce.

GLOBALeMED enables online product purchases, and offers technical support, product information, training, demonstration videos, medical information resources and 24-hour access to multi-lingual medical technicians. For content purposes and to encourage recurring visits, health-related news, community interests, professional societies, event calendars, bulletin boards and links to medical data are available to users, but are not the crux of the strategy. All in all, World Diagnostics' marketing and distribution strategies offer an extensive selection of affordable diagnostic products and services to emerging and under-served international markets. One reason we are so bullish on the company is that to date, WDI has made no advertising or marketing effort to tie in with medical portals and search engines in these emerging markets, which are now particularly ready. Management states that the company is receiving dozens of new registrations each day that, albeit small, are becoming customers. All this is prior to launch, which is scheduled for next year.

REGIONAL UPDATE

Because the company's success is predicated on sales in a vast array of emerging markets, we feel it is important to provide a brief sketch of where WDI currently stands in each market:

Africa

Country	Product(s)	Primary Customer	Potential Market*	Status	Special Notes
South Africa	HIV, HCV, HbsAG	Distributors Private Sector Industrial Sector	\$2 Million	Active sales FDA evaluation for Tier 1 status in process	FDA approval will enable worldwide distribution. Negotiating alliances with key distributors.
Mozambique	Elisa Kits, Stat Fax Analyzers, HIV	Government	\$1.5 Million	Evaluation in process	Pending approval to equip government labs & support Nat'l Screening Program.
Algeria	Pregnancy	Distributors Private Sector	\$250,000	Approved for export	
Tanzania	HIV, TB, Syphilis, Hepatitis	Government Distributors Private Sector	\$1 Million	Evaluation in process	
Kenya	HIV	Government	\$1 Million	Bidding in process	Quantitative Tests for government use
Uganda	Hepatitis, Syphilis, HIV, Gonorrhea, Malaria, TB	Government Private Sector Distributors	\$1 Million	Approval and certification granted on 70% of tests	Completion of acceptance and distribution expected Jan 2002
Zambia	All Products	Distributors Private Sector	\$500,000	E-Commerce and marketing platforms launched	

Europe

Country	Product(s)	Primary Customer	Potential Market*	Status	Special Notes
Hungary	All Products	Distributors Private Sector	\$250,000	Active sales via Partners/Distributors	Partnered with 25 year distributor in Budapest WDI products equal to 40% of product base
Netherlands	Pregnancy, Ovulation	Distributors, Private Sector	\$250,000	Active sales via Partners/Distributors	Partnered with local distributor OTC sales to 2 nd largest pharmacy chain. Increased sales expected through labs

					market.
Italy	Alcohol All Products	Government Distributors Private Sector	\$1.5 Million	Legislative approval of BreathScan for use by Law Enforcement. Finalizing agreement with local distributor	Contract with distributor to include Italy, Austria, Germany and Switzerland
Lithuania	All Products	Distributors Private Sector	\$100,000	Final negotiations with wholesale distributor	
U.K.	Rapid Heart Attack Detect	Distributors	\$1 Million	Partnered with 25 year distributor	Pan European market expansion expected with CE Mark approval.

Asia

Country	Product(s)	Primary Customer	Potential Market*	Status	Special Notes
Vietnam	STDs, Gonorrhea, Syphilis, Pregnancy, Chlamydia	Government Distributors Private Sector	\$1 Million	Active sales	Distributors in Ho Chi Minh City (Private Sector) and Hanoi (Government Sector). Nat'l Screening Program for Women
Singapore	HIV, Prenatal Screening	Government	\$75,000	Secondary supplier to Malaysia Government	Distribution for Sub-Asia in process
China	HIV, HCV, HbsAG, STDs	Government	\$2.5 Million	Government registration pending	Registrations will enable expansion to Private Sector
Philippines	hcG Tests, Pregnancy	Distributors Private Sector	\$250,000	Active sales	Government registrations received
Hong Kong	All Products	Distributors Private Sector	\$250,000	E-Commerce and marketing platforms launched	
India	HIV, TB, Malaria, HCV, HbsAG, Pregnancy, Infectious Disease, Cardiac	Government Distributors	\$3 million	Active sales	State government contracts vs. Federal.

Middle East

Country	Product(s)	Primary Customer	Potential Market*	Status	Special Notes
UAE	All Products	Government Distributors Private Sector	\$250,000	Active sales	
Saudi Arabia	Hepatitis	Government Distributors	\$600,000	Active sales	Government acceptance received. Sales predicated upon equipment placement at no charge to government.
Egypt	All Products	Distributors Private Sector	\$300,000	Active sales	WDI representing <i>Medicare Scientific's</i> exclusive business with major vaccine producer.

South America

Country	Product(s)	Primary Customer	Potential Market*	Status	Special Notes
Argentina	HIV	Government	\$500,000	Active Sales	Government approval received

		Distributors			
Chile	HIV, HCV, HbsAG	Distributors Private Sector Government	\$1 Million	Active Sales	Government approval pending
Brazil	Syphilis, HIV, HCV, TB, Malaria, Leishmania, Gonorrhea, Hepatitis	Distributors Private Sector Government	\$3 Million	Active Sales	WDI office open in Sao Paolo Alliance formed with NDI
Peru	All Products	Distributors Private Sector	\$400,000	E-Commerce and marketing platforms launched	
Paraguay	All Products	Distributors Private Sector	\$250,000	E-Commerce and marketing platforms launched	

* - Based on management estimates

BUSINESS MODEL

WDI's business model can best be described as a multi-channel strategy. That is, the company is selling through traditional distributors/partners, as well as incorporating an online strategy to increase distributorships and sell directly to end-users. Since traditional distributorships are largely self-explanatory, we are focusing on the company's Internet component, the GLOBALeMED system.

WDI is clearly more than a typical e-health company. First, the company doesn't have to look for customer and market targets. It already has the relationships with the medical societies, i.e. (mailing lists), hospitals, governments, clinics, etc., and has the authenticity necessary to do business in these less formal, more entrepreneurial markets. Furthermore, WDI is utilizing the Internet for what it is meant for in a business-to-business context: transactional efficiency. We have always felt that these companies have had the best chance for success. And, as pure content players have been weeded out of the marketplace, our hunch has proven correct. Of course, even the models of efficiency in the online space – the Vertical Nets, Aribas, etc. – have seen their valuations dwindle. But, these devaluations were largely driven by economic conditions rather than faulty business models. For WDI, it is a matter of aggregating fragmented, hard-to-reach markets into a virtual, single distribution center. And to do this, it must incentivize the emerging marketplace to do so.

It is important to remember that distributors perform four basic functions: 1) purchasing products; 2) distributing those products; 3) collecting payment; and 4) offering technical support. Often, it is the technical support function that is the most time-consuming. GLOBALeMED reduces the distributors' time burden for all of these functions, thereby increasing their margins and allowing them to expand their territories.

For end-users, it is a chance to save money on almost every basic product they need, and in some cases, eliminate the middleman altogether. And it is no doubt that online use, and thus purchasing, is growing in the company's chosen markets. In Latin America, for example, the Boston Consulting Group (BCG) says that online retail revenues in Latin America will reach \$1.28 billion this year, up from \$540 million last year. In a study sponsored by Visa International, BCG found that Brazil, where the company has a major presence, continues to lead this market in the region, with revenues of \$906 million forecast for this year. The challenge facing WDI is raising enough capital to fund marketing efforts to the end-users.

Of course, because the company is eliminating the distributor in this case, and wholesale pricing, its margins are much higher.

At this point we need to distinguish between a distributor and a GLOBALeMED partner. A distributor simply purchases products from manufacturers and other product aggregators, and resells them to end-users. The company currently has 88 such relationships across the globe. A GLOBALeMED partner, on the other hand, is assigned a territory, given a branded Web site, and agrees to purchase exclusively from the company. So, a GLOBALeMED partner can have other distributors as well as end-users in his/her territory. In the event an end-user in the partner's territory purchases products directly from the company, the partner is given a 10% override on the sale. Thus, the partner receives a piece of every sale from the company in that region. In any event, World Diagnostics' goal is to encourage online sales – from wherever and whomever initiates them. Management estimates that the cost of fulfillment will drop from an average of \$40-50 per order to \$3-4. Therefore, we will see operating (and thus net) margins improve as the percentage of online sales increases in the coming years.

Finally, the company is proving its model on a regional basis prior to a worldwide rollout, an intelligent strategy in our opinion. Over the next few months, WDI will test marketing in the Caribbean. This region was chosen because of its close proximity and affinity to the U.S., its relatively small size (where the model can easily be monitored), and English is the primary language spoken. If this regional model is proven successful, we would expect solid growth in company sales, as well as WDI attracting larger players in the industry, who would most likely rather buy their way into these markets than invest to create the infrastructure themselves.

EXECUTIVE TEAM

WDI boasts a solid management team, one that we feel does not befit a typical OTC company. The Company's management team and Board of Directors have significant marketing experience in both the healthcare and Internet sectors, bringing expertise from such firms as Abbott Labs, Becton, Dickinson and Company, and W.R. Grace & Co.

Ken M. Peters - President, CEO, Director and Founder. Ken Peters brings 25 years of international sales and marketing experience to the company, including serving as General Manager of Abbott Diagnostics, where he was responsible for the Caribbean, and Central and South American regions. He has held senior international marketing positions with Pharmacia, AG, American Monitor Corp. and Flow Laboratories, Inc., and has received numerous awards from the Biomedical Marketing Association. Mr. Peters holds a B.A. in Business and Economics from the City University of New York, and an MA in Economics from the University of New Mexico.

Barry Peters - Chairman of the Board and Founder. Barry Peters has 25 years experience in finance and management. Currently, he is the Chairman/CEO of MediaVest, Inc., and served as the former Chairman/CEO of Appian Graphics, Inc. and founder/CEO of All Comm Media Corporation. Previously, Mr. Peters sponsored numerous management buyouts for Fortune 500 companies. Mr. Peters received a B.A. Magna Cum Laude from Hofstra University and an MBA in Finance from the Baruch School of Business at the City University of New York.

Walter V. Usinowicz, Jr. – Executive Vice President and Chief Operating Officer. Mr. Usinowicz has almost 30 years experience in operations and finance in various aspects of the medical device, supplies and diagnostics industries. He has served as an executive with General Foods Corporation, W.R. Grace & Co., Inc., Becton, Dickinson and Company, Xenometrix, Inc., Biomed Diagnostics, Inc., Buymatrix, Inc. and TCPI, Inc. Mr. Usinowicz is a graduate of Lehigh University with a B.S. in Finance and an MBA in Economics from New York University.

Paul R. Kamps - Vice President-Finance and Chief Financial Officer. Mr. Kamps is a CPA with 13 years of operations experience, particularly with mid-size companies in the international arena. He began his career at Ernst & Young, and held controller positions at Medical Resources, Inc., Proven Edge, Inc. and LKQ Corporation. He holds a Bachelor in Accounting Science with Honors from the University of South Africa, and a Bachelor of Commerce from the University of Witwatersrand - Johannesburg.

Russell Fortier - Vice President-Marketing. Mr. Fortier joined WDI from First Consulting Associates, an international market development firm for medical-technology-based products. He was previously with Becton Dickinson as General Manager of Infectious Disease Diagnostics in Latin America, and Worldwide Business Director for Becton, Dickinson Diagnostic Instrument Systems. He holds an MBA. in Marketing and Strategic Planning from Northwestern University, a B.S. in Biology from the University of Connecticut, and a Certificate from Harvard University Advanced Management Program in Technology and Operations Management.

Mark Smith – Vice President, Business Development. Mr. Smith has 17 years extensive domestic and international sales and marketing experience in the medical, industrial and research instrumentation markets. Most recently, he was Regional Director of Sales, North America for Dublin-based Trinity Biotech plc. Previously, he held sales and marketing positions for ABX Diagnostics, Inc., BBI-Source Scientific, Inc., and Abbott Laboratories Diagnostics Division. Mr. Smith is a graduate of Western Illinois University with a B.A. in Communications and Public Relations.

Kenneth Lambley - Vice President, Sales. Prior to joining WDI, Mr. Lambley was employed with Seradyn Diagnostics, a subdivision of Dow Chemical, (later acquired by Mitsubishi), in various marketing positions and as Director of International Sales. During his 30-year career, responsibilities included management for both diagnostic and pharmaceutical products. Mr. Lambley graduated from Nottingham College in the United Kingdom, with a degree in International Marketing.

FINANCIAL INFORMATION

Income Statement and Cash Flow.

For the three months ended Sept. 30, 2001, the company reported a loss of \$590,000 on revenues of approximately \$757,000, an increase of 42% over the same quarter in 2000. Excluding a one-time \$222,000 in interest charge, the loss was significantly less than Q2 '00, meaning the company has taken great strides to reduce expenses.

Because of a slowdown in the global economy, as well as shipping delays resulting from the Sept. 11 terrorist attacks, we expect revenue to drop off a bit in Q3, ending Dec. 31, 2001, but picking up again in Q4 as distributorship expands. Our numbers do not reflect growth as a result of potential future

acquisitions or alliances. It should also be noted that contract business can vary widely in both revenue and margins, as well as timing. One significant contract can cause actual results to be significantly different than our projections. Management says that WDI has over \$20 million in new business that is pending government evaluations and competitive bids, much of which is due to the investment made in product development and distributorship building in various countries. In addition, it is difficult to predict the rate at which end-user GLOBALeMED sales will occur. Our estimates might very well prove conservative in amount, and are certainly unpredictable in timing, because many emerging markets already have excellent infrastructure, such as Chile, which has the highest amount of ISP's per capita in the world.

World Diagnostics, Inc.

Balance Sheet Highlights

For the Periods Ended as Stated

	3-31-01 audited	9-30-01 unaudited
Current Assets	\$ 1,314,984	\$ 1,622,149
Total Assets	1,862,587	2,254,772
Current Liabilities	996,257	2,029,476
Long Term Debt	0	0
Total Liabilities	1,151,853	2,215,678
Shareholders' Equity	710,734	39,094
Shares Outstanding	7,255,120	9,248,476
Current Ratio*	1.32	0.80
BVPS*	0.10	0.01

* - Full year period as of 3/01 and 3-month period as of 9/01.

Note: Long-term debt excludes deferred rent and capital lease obligations

Liquidity and Capital Resources.

The company is currently operating under a working capital deficit, and expects existing sources of cash flow and liquidity will be sufficient (assuming static sales) to meet its projected operating and debt service requirements for only the next three months. There is no doubt that WDI will need to raise additional capital in order to realize its business plan. The ability to raise sufficient capital to fund sales and marketing of GLOBALeMED is the primary risk of this investment. But the following points must be taken into account when evaluating the overall risk:

- The company intends to aggressively pursue capital raising activities to improve its liquidity position and fund its marketing efforts.
- The company has undertaken a review of all expense items and initiated cutbacks in various areas.
- To date, WDI has consistently managed to finance its business plan through equity and debt placements directly with existing and new shareholders.
- WDI has the ability to raise over \$4 million through the exercise of warrants that are callable once the share price exceeds \$2.50 and certain trading volume thresholds are met.
- WDI is currently negotiating with various U.S. governmental agencies for loan guarantees under different export finance programs that would materially help strengthen the company's working capital, while helping to boost revenues and growth of the business.
- The Company has signed a letter of intent to enter into a joint venture with Caldon Biotech, Inc. to provide WDI with various diagnostic test products and develop new products, including a multiple test strip for the main bioterrorism diseases (anthrax, small pox, etc.). The venture is intended to give WDI greater control over production requirements and reduce costs, increasing gross profit margin.

OUTLOOK/VALUATION

We feel that World Diagnostics is positioning itself through strategic partnerships, distributorships, joint ventures and possible acquisitions as the leading global supplier of medical diagnostics, equipment and supplies to the emerging marketplace. Obviously, the company is at a critical point as it transitions from traditional distribution of its products to a virtual platform. But the payoff has the potential to be huge. While it is certainly difficult to quantify future success, as well as to determine the competitive moves of the dominant players, we believe that WDI is establishing a critical inroad to its chosen market.

Assuming the company can raise additional capital to finance its business plan, we feel the stock is undervalued by several qualitative and quantitative measures:

1. WDI is well positioned and has the infrastructure to compete in the global marketplace. Product selection, purchase and invoicing are all tied together electronically, and management estimates that the backend electronic infrastructure is 98% ready for a global rollout.
2. Management has the experience and track record of execution necessary for success.
3. The company is targeting the highest growth sectors of the market. The emerging markets are exhibiting faster growth than the more saturated, developed nations. It is also focusing on the fastest growing segments of the medical products industry. While emerging markets entail greater risk, mostly of timely payment, this risk is mitigated by the functionality of WDI's online market.

In placing a valuation and price target on the stock, we chose to use a basket of comparable companies, broken down by size. As we were unable to obtain revenue and earnings estimates on all of our comps, we have chosen to use trailing twelve month (TTM) multiples as a valuation proxy. It should be noted that when using forward estimates, multiples will always be lower when a company is growing. In any event, because of WDI's positioning, we feel comfortable that this valuation is fair.

The first category is what we've termed the "Medical Oligopoly" – the large players in the medical product space – followed by mid and smaller market diagnostic companies and distributors. It should be noted as well that many international companies we researched, while larger, did not exhibit as much product depth and geographic scope as WDI. Nonetheless, we must be realistic and gravitate towards the smaller companies in our valuation.

So, using our comparables we obtain an average Price-to-Earnings (P/E) ratio of 24.5x and a Price-to-Sales (P/S) ratio of 3.9x. On an earnings basis, this gives us a price of \$2.83 based on our estimate of the company's *cash* earnings in FY 2003 (ending 3/31/03). Since not all of our comparables have positive reported earnings, however, we feel more justified in using P/S as a measure of value. While 3.9x is below the figure for the small companies (WDI's closest comparables), we need to discount this figure slightly to reflect the fact that we are applying a TTM number to the company's forward revenues. In this case, roughly a 10% discount is reasonable. Therefore, a P/S ratio of 3.6x gives us a stock price of \$4.51.

All in all, we feel that the company is exhibiting all the characteristics of a solid equity play. As WDI proves that it is able to execute its business plan and achieve greater credibility with the investing community, it is more likely to be perceived as a growth company and given a valuation multiple more consistent with growth stocks. We will look to the Company's ability to deliver on our revenue projections as a reason to update the stock to a **Strong Buy** rating. If the business plan is executed, WDI could be a

very solid play and a highly desirable acquisition, since we found no other operating company in the medical product distribution space with a business model like WDI's. For now, we are initiating coverage on World Diagnostics, Inc. with a "Buy" recommendation and a 6-12 month price target of \$4.50.

Comparables

Medical "Oligopoly"				
Company	Ticker	Market Cap \$MM	P/E	P/S
Abbott	ABT	84,700	50.79	5.49
J&J	JNJ	178,300	32.49	5.68
Becton, Dickinson	BDX	8,970	20.89	2.42
Roche	RHHBY	60,800	19.47	3.50
Quest Diagnostics	DGX	5,980	37.59	1.70
Beckman Coulter	BEC	25,700	19.63	1.39
<i>Weighted Averages</i>			<i>32.85</i>	<i>4.80</i>
Mid-Market Diagnostics				
Company	Ticker	Market Cap Cap	P/E	P/S
Meridian Bioscience	VIVO	87.4	N/A	1.54
Inverness Medical Innovations, Inc.	IMA	106.7	45.30	1.13
Quidel Corporation	QDEL	200.3	N/A	2.75
Diagnostic Products	DP	1,130	35.61	4.72
Cantel Medical Corp.	CNTL	124.7	24.35	2.05
PSS World Medical	PSSI	660.4	N/A	0.49
<i>Weighted Averages</i>			<i>20.83</i>	<i>2.77</i>
Small-Market Diagnostics				
Company	Ticker	Market Cap Cap	P/E	P/S
Molecular Diagnostics	MCDG.OB	25.4	N/A	17.21
Utah Medical Products	UTMD	57.1	10.17	2.81
Corgenix Medical Corp.	COGX.OB	4.7	12.22	0.96
Hycor Biomedical, Inc.	HYBD	47.4	77.27	2.94
Hemagen Diagnostics	HMGN	8.4	N/A	0.81
Provalis, plc	PVLS	44.4	N/A	5.64
Trinity Biotech, plc	TRIB	59.4	18.61	1.84
Moore Medical Corp.	MMD	23	N/A	0.17
Biomerica Inc.	BMRA	3.59	N/A	0.38
<i>Weighted Averages</i>			<i>19.77</i>	<i>4.07</i>

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EquityNet Research ♦ 14011 Ventura Boulevard, Suite 221 West ♦ Sherman Oaks ♦ CA ♦ 91423
Phone: 818-783-5006 E-mail: info@equitynet.net

World Diagnostics, Inc.

Projected Statement of Operations & Earnings

(In \$ Thousands, except per share data)

Actual - A Estimates - E	Fiscal 2001-A		Q1 2002-A		Q2 2002-A		Q3 2002-E		Q4 2002-E		Fiscal 2002-E		Fiscal 2003-E				
	31-Mar-01		30-Jun-01		30-Sep-01		31-Dec-01		31-Mar-02		31-Mar-02		31-Mar-03				
Revenue																	
Distributor & Equipment Sales	\$	2,008	91.1%	\$	696	\$	633	\$	409	\$	513	\$	2,251	68.3%	\$	6,069	52.4%
Contract Sales		186	8.4%		46		121		130		564		861	26.1%		3,584	31.0%
GLOBALeMED B2C		10	0.5%		3		3		4		174		184	5.6%		1,924	16.6%
Total Revenue	\$	2,204	100.0%	\$	745	\$	757	\$	543	\$	1,251	\$	3,296	100.0%	\$	11,577	100.0%
Cost of Goods Sold		1,753	79.5%		590		632		434		1,012		2,668	80.9%		8,269	71.4%
Gross Profit		451	20.5%		155		125		109		239		629	19.1%		3,308	28.6%
Operating Expenses																	
Selling, General & Administrative		2,077	94.2%		716		421		347		318		1,802	54.7%		2,110	18.2%
Total Operating Expenses		2,077	94.2%		716		421		347		318		1,802	54.7%		2,110	18.2%
Operating Income (Loss)		(1,626)	-73.8%		(561)		(296)		(238)		(79)		(1,173)	-35.6%		1,198	36.3%
Other (Income) Expense																	
Depreciation & Amortization		76	3.4%		19		21		21		22		83	2.5%		140	1.2%
Increase in A/R Reserve		170	7.7%		-		48		10		15		73	2.2%		55	0.5%
Debt Extension Expense		10	0.5%		-		-		-		-		-	0.0%		-	0.0%
Interest (Income) Expense		33	1.5%		2		224		84		2		312	9.5%		30	0.3%
Other (Income) Expense		(2)	-0.1%		-		-		21		21		-	0.0%		100	0.9%
Total Other (Income) Expense		287	13.0%		21		293		136		60		468	14.2%		325	2.8%
Income (Loss) Before Extraordinary Item		(1,913)			(582)		(589)		(374)		(139)		(1,641)	-49.8%		873	7.5%
Extraordinary Loss on Debt Extinguishments		54			-		-		-		-		-			-	
Net Income (Loss)	\$	(1,967)	-89.2%	\$	(582)	\$	(589)	\$	(374)	\$	(139)	\$	(1,641)	-49.8%	\$	873	7.5%
Earnings Per Share:																	
EXCLUDES ALL NON-CASH CHARGES	\$	(0.30)		\$	(0.08)	\$	(0.06)	\$	(0.04)	\$	(0.01)	\$	(0.15)		\$	0.10	
Reported	\$	(0.35)		\$	(0.08)	\$	(0.06)	\$	(0.04)	\$	(0.01)	\$	(0.17)		\$	0.08	
Weighted Average Shares:																	
Shares Used in EPS Calculation		5,578,137			7,269,333		9,110,433		9,250,000		9,750,000		9,750,000			10,435,000	
3-Yr Revenue CAGR		73.8%															

Note: All figures are in US\$. The company is not exposed to currency risk as all payments are received in U.S. dollars regardless of place of origin.