RESAPP HEALTH LIMITED

Research Note

MARKET UPDATE

Phase III trial recruitment completes. Results expected in July

- **ResApp Health Ltd (RAP) has reported a couple doses of positive news recently. RAP announced that it has completed enrolment for its phase III SmartCough-C study, with final top line results expected in July. The second piece of news relates to the announcement of its humanitarian partner, Doctors Without Borders (DWB), moving to a formal clinical study of RAP's diagnostic device in a lower income rural setting. Both these developments add forward momentum to RAP's progress to commercialisation of its smart phone diagnostic for various respiratory conditions. Assuming RAP succeeds in the near term to achieve regulatory approval, we understand that commercial contracts and sales would begin shortly thereafter and forms the basis for our FY18 forecasts. If RAP passes the first test, commercialisation will be a critical second test. We maintain our BUY recommendation, as we wait for confirmation.**
- RAP recently announced that it has now enrolled 1,157 patients across three participating hospitals, and has reached its target recruitment numbers for all study endpoints, including those for pneumonia, upper respiratory tract infection, lower respiratory tract involvement, croup, asthma / reactive airways disease and bronchiolitis. Final data verification is expected to commence in the week ending 16 June, 2017. Top line results are now expected in July, while in parallel RAP and its FDA consultants should finalise the de novo submission. While this represents a slight slippage from initial expectations, and may impact the timeline on sales commencing at the margin.
- DWB has expressed an interest in RAP as it recognises it's potential. For a number of months DWB has been using c20 devices causally in the field, in some of the most challenging conditions that Doctors encounter. DWB now wishes to move to its own formal clinical study, given sufficient indication of the merit of the device.
- We understand that such a study would be larger in scope and be conducted more quickly than a phase III US FDA trial, given the larger number of doctors and sick children involved. It should be noted that c950k children under the age of five die of pneumonia annually, many of which are caused by delays in diagnosis, due to the lack of high-quality medical care in developing regions. The study is expected to commence soon with commencement subject to individual country sign-off.

Year End June 30	2015A	2016A	2017F	2018F	2019F
Reported NPAT ($m)	(0.6)	(3.2)	(6.0)	13.4	35.9
Recurrent NPAT ($m)	(0.5)	(3.2)	(6.0)	13.4	35.9
Recurrent EPS (cents)	(0.1)	(0.5)	(1.0)	2.3	6.0
EPS Growth (%)	na	na	na	na	167.5
PER (x)	(393.5)	(85.4)	(45.4)	20.4	7.6
PEG	na	na	na	na	0.0
EBITDA ($m)	(0.7)	(3.3)	(5.8)	18.8	50.7
EV/EBITDA (x)	(290.0)	(83.2)	(46.8)	14.6	5.4
Free Cashflow	(1.0)	(3.1)	(4.8)	4.6	24.8
FCFPS (cents)	(0.2)	(0.5)	(0.8)	0.8	4.2
PFCF (x)	(198.2)	(89.4)	(57.1)	59.5	11.1
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

9 June 2017

12mth Rating		BUY
Price	A$	0.31
Target Price	A$	0.59
12mth Total Return	%	84.4
RIC: **RAP.AX**		BBG: **RAP AU**
Shares o/s	m	594.2
Free Float	%	81.1
Market Cap.	A$m	193.8
Net Debt (Cash)	A$m	-13.7
Net Debt/Equity	%	-85.6
3mth Av. D. T'over	A$m	0.5
52wk High/Low	A$	0.54 / 0.07
2yr adj. beta		0.5
Valuation:		
Methodology		DCF
Value per share	A$	0.59

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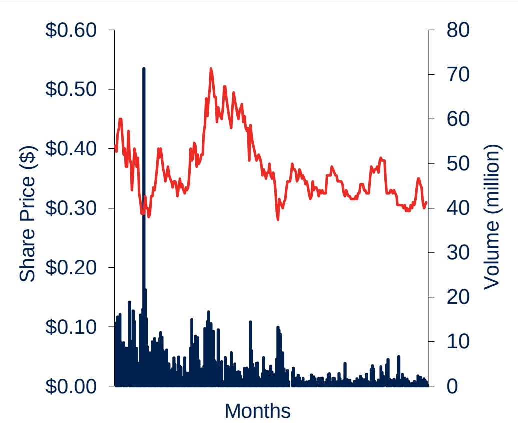
12 Month Share Price Performance

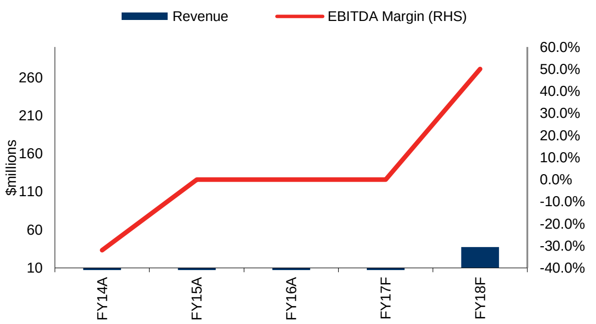


Performance %	1mth	3mth	12mth
Absolute	0	0	0
Rel. S&P/ASX 300	0	0	0

Resapp Health Limited (RAP) **$0.31**

Cash Flow ($m)	2016A	2017F	2018F	2019F
Adj. Operating Cashflow	**-2.4**	**-5.0**	**4.9**	**25.3**
Capex	0.0	0.0	0.0	0.0
Capitalised R&D	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Earn-out Payments	0.0	0.0	0.0	0.0
Investing Cashflow	**0.0**	**0.0**	**0.0**	**0.0**
Equity Raised	12.0	0.0	0.0	0.0
Increase (Repay) Debt	0.0	0.0	0.0	0.0
Distributions Paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	**12.0**	**0.0**	**0.0**	**0.0**
Change in Cash Held	9.6	-5.0	4.9	25.3
Closing Cash Balance	**13.7**	**8.8**	**13.7**	**39.0**

Revenue & Margins



Valuation	2017F	FY18F	FY19F
DCF			
Beta			1.8x
WACC			15.0%
DCF per share			**$0.59**
Capitalisation of future earnings	**2017F**	**2018F**	**2019F**
EBITDA	-5.8	18.8	50.7
EV / EBITDA multiple	8.0x	8.0x	8.0x
Enterprise value	**-46.8**	**150.3**	**405.5**
Net cash/ (debt)	8.8	13.7	39.0
Equity value	**-38.0**	**164.0**	**444.5**
Equity value per share	**-$0.05**	**$0.21**	**$0.56**

Directors & substantial shareholders

Name	Position
Roger Aston	Independent Chairman
Tony Keating	Managing Director
Brian Leedman	Executive Director
Christopher Ntoumenopoulos	Non Exec Director

Shareholder	No. shares	%
Freeman Road Pty Ltd	44.0	7.6
FIL Limited	40.0	6.2
Total substantial	**84.0**	**13.8**

Profit & Loss ($m)	2016A	2017F	FY18F	FY19F
Sales Revenue	0.0	0.0	37.5	82.5
COGS	0.0	0.0	0.0	0.0
Gross Profit	**0.0**	**0.0**	**37.5**	**82.5**
Operating Expenses	-3.3	-5.8	-18.7	-31.8
Associates	0.0	0.0	0.0	0.0
EBITDA	**-3.3**	**-5.8**	**18.8**	**50.7**
Depn & Amort	0.0	0.0	0.0	0.0
EBIT	**-3.3**	**-5.8**	**18.8**	**50.7**
Net Interest	0.1	-0.2	0.4	0.5
PBT	**-3.2**	**-6.0**	**19.2**	**51.3**
Tax expense	0.0	0.0	-5.7	-15.4
NPAT (Underlying)	**-3.2**	**-6.0**	**13.4**	**35.9**
Adjustment	0.0	0.0	0.0	0.0
Statutory NPAT	**-3.2**	**-6.0**	**13.4**	**35.9**
NPAT (Adjusted)	**-3.2**	**-6.0**	**13.4**	**35.9**

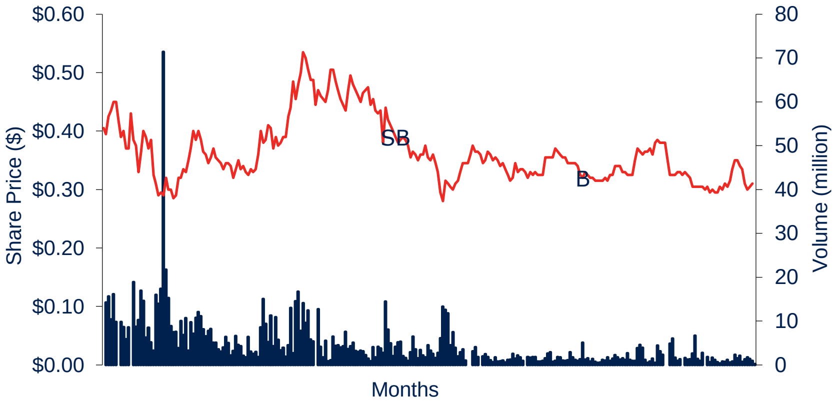
Segment Revenue ($m)	2016A	2017F	FY18F	FY19F
Telehealth	0.0	0.0	37.5	82.5
Total Revenues	**0.0**	**0.0**	**37.5**	**82.5**

Balance Sheet ($m)	2016A	2017F	FY18F	FY19F
Cash	13.7	8.8	13.7	39.0
PP&E	0.0	0.0	0.0	0.0
Intangibles	2.3	2.3	2.3	2.2
Other	0.2	0.0	9.9	23.2
Assets	**16.3**	**11.0**	**25.9**	**64.4**
Payables	0.2	1.1	2.5	5.1
Borrowings	0.0	0.0	0.0	0.0
Other liabilities	0.0	-0.2	-0.1	-0.1
Liabilities	**0.3**	**1.0**	**2.4**	**5.1**
Shareholders Funds	**16.0**	**10.0**	**23.4**	**59.3**

EPS & DPS	2016A	2017F	FY18F	FY19F
EPS (Reported)	-0.4	-0.8	1.7	4.6
EPS (Adjusted)	-0.4	-0.8	1.7	4.6
EPS growth (%)	na	na	na	167.5
DPS	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0

Ratios	2016A	2017F	FY18F	FY19F
Profitability				
NPAT Growth (%)	na	na	na	167.5
Sales Growth (%)	na	na	na	120.0
Gross Profit Margin (%)	na	na	100.0	100.0
EBITDA Margin (%)	na	na	50.1	61.4
ROIC (%)	-142.1	-463.8	134.3	174.3
ROE (%)	-20.0	-60.2	57.3	60.5
ROA (%)	-20.2	-53.0	72.6	78.7
Tax Rate (%)	0.0	0.0	30.0	30.0
Valuation				
Price / Earnings (x)	-76.1	-40.5	18.2	6.8
EV / EBITDA (x)	-51.9	-30.0	9.1	2.9
Price / FCF (x)	-75.7	-38.5	40.1	7.4
Price / NTA (x)	13.5	23.7	8.7	3.2
Price / NA (x)	11.5	18.3	7.9	3.1
Balance Sheet				
Net Debt / Equity (%)	-85.6	-87.4	-58.5	-65.8
Net Debt / Assets (%)	-84.4	-79.3	-53.0	-60.6
Net Debt / EBITDA (x)	4.2	1.5	-0.7	-0.8
Interest Cover (x)	41.1	-29.9	-53.7	-92.6
NTA ($/share)	0.0	0.0	0.0	0.1
NA ($/share)	0.0	0.0	0.0	0.1
Shares (m)	594.6	594.6	594.6	594.6

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
16 Nov 16	Research Note	0.59	0.40	SB	
01 Mar 17	Research Note	0.59	0.32	B	-20.0%
	Current Share Price		0.31		-3.1%

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

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