

# ResApp Health

## Key results approach

**ADD** (previously HOLD)

Current price:	A\$0.14
Target price:	A\$0.28
Previous target:	A\$0.12
Up/downside:	101.1%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$68.72m
	A\$92.27m
Average daily turnover:	US\$0.36m
	A\$0.47m
Current shares o/s	659.0m
Free float:	90.2%

- RAP expects to report the top line results from two clinical studies by mid-CY18.
- CEO Tony Keating presented to the Morgans network, a link to the presentation is enclosed.
- Although we have made no changes to forecasts, we have reduced the discount to our valuation ahead of the expected release of key clinical results. This sees our target price increase and our recommendation move to Add from Hold.

### Recap on key US clinical trial

On 9 March 2018 RAP announced it had enrolled 640 patients in its SMARTCOUGH-C-2 study. The study is a prospective, multi-site, double blind study to evaluate the efficacy of the ResAppDx smartphone application in the diagnosis of childhood respiratory diseases from cough sounds. The SMARTCOUGH-C-2 study plans to enroll by mid-CY18 up to 1,667 patients aged 29 days to 12 years of age who present to one of the three participating sites in the US with signs or symptoms of respiratory disease. The study's co-primary endpoints are positive and negative percent agreement with clinical diagnosis for pneumonia, lower respiratory tract disease, viral lower respiratory tract infection, bronchiolitis, asthma/reactive airways disease, upper respiratory tract disease and croup. The clinical diagnosis will be made by an independent, centralised clinical adjudication committee using all available clinical data, including radiology and microbiology.

### Presentation from CEO Tony Keating – highlights key catalysts

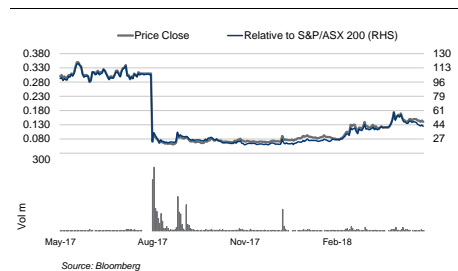
RAP's CEO and Managing Director Dr Tony Keating delivered a company update to the Morgans network, to view the video: [click here](#). Dr Keating spoke about the progress of the current clinical trials; the US SMARTCOUGH-C-2 study and the Breathe-Easy Australian adult and children study, where top line results for both are due around mid-CY18. He also described the recent extension into sleep apnea detection software.

### No changes to forecast, however valuation discount unwound

We make no changes to forecasts having previously pushed our forecasts out by 12 months following a failure in the first US trial to achieve clinical significance following procedural and protocol issues. In our modelling we have assumed additional capital will be required in FY18 to fund further adult studies and undertake regulatory submissions. However until the top line results are known, an additional fund raising is unlikely. RAP had A\$4.3m in cash at 31 March 2018 and subsequently received A\$0.7m through the R&D tax incentive.

### Investment view – upgrade to Add ahead of clinical results

Our DCF valuation remains unchanged at A\$0.35. However as recruitment and trial results remain on track to read out mid CY18 we have reduced our discount to 20% from 75% and set our price target at A\$0.28 (was A\$0.13). The key risk is an unfavourable clinical outcome. We have upgraded our recommendation to Add from Hold.



Price performance	1M	3M	12M
Absolute (%)	-6.7	72.8	-54.1
Relative (%)	-11.9	69.4	-57.9

**Scott POWER**

T (61) 7 3334 4884

E scott.power@morgans.com.au

**Dr Derek JELLINEK**

T (61) 2 9043 7904

E derek.jellinek@morgans.com.au

### Financial Summary

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue (A\$m)	0.00	1.14	0.00	3.00	14.00
Operating EBITDA (A\$m)	-3.29	-9.97	-7.74	-4.87	5.85
Net Profit (A\$m)	-3.25	-10.03	-7.84	-4.88	5.72
Normalised EPS (A\$)	(0.005)	(0.015)	(0.010)	(0.006)	0.006
Normalised EPS Growth	115%	204%	(32%)	(38%)	
FD Normalised P/E (x)	NA	NA	NA	NA	21.54
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	18.54
P/FCFE (x)	NA	NA	NA	NA	24.25
Net Gearing	(85.6%)	(75.4%)	(96.3%)	(94.3%)	(93.2%)
P/BV (x)	5.66	8.13	8.07	13.66	7.70
ROE	(31.9%)	(73.2%)	(63.9%)	(46.6%)	48.1%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			1.03	0.64	0.65

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Income statement						Valuation metrics						
	FY16A	FY17A	FY18F	FY19F	FY20F	Share price	\$0.14	Target	\$0.28			
<b>Total revenue</b>	<b>0.0</b>	<b>1.1</b>	<b>0.0</b>	<b>3.0</b>	<b>14.0</b>	DCF valuation inputs						
<b>EBITDA</b>	<b>-3.3</b>	<b>-10.0</b>	<b>-7.7</b>	<b>-4.9</b>	<b>5.8</b>	Rf	4.00%	10-year rate	4.00%			
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	5.00%	Margin	2.0%			
Depreciation	0.0	0.0	0.0	0.0	0.0	Beta	1.70	Kd	4.20%			
EBITA	-3.3	-10.2	-8.0	-5.1	5.6	CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%			
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0			NPV cash flow (A\$m)	254.6			
<b>EBIT</b>	<b>-3.3</b>	<b>-10.2</b>	<b>-8.0</b>	<b>-5.1</b>	<b>5.6</b>	Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0			
Net interest expense	0.0	0.2	0.2	0.3	0.1	Debt (D/EV)	0.0%	Net debt (A\$m)	-12.7			
Pre-tax profit	-3.2	-10.0	-7.8	-4.9	5.7	Interest rate	4.20%	Investments (A\$m)	0.0			
Income tax expense	0.0	0.0	0.0	0.0	0.0	Tax rate (t)	30.0%	Equity market value (A\$m)	267.3			
After-tax profit	-3.2	-10.0	-7.8	-4.9	5.7	WACC	12.5%	Diluted no. of shares (m)	759.0			
Minority interests	0.0	0.0	0.0	0.0	0.0			<b>DCF valuation</b>	<b>\$0.35</b>			
<b>NPAT</b>	<b>-3.2</b>	<b>-10.0</b>	<b>-7.8</b>	<b>-4.9</b>	<b>5.7</b>							
Significant items	0.0	0.0	0.0	0.0	0.0	<b>Multiples</b>		<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
<b>NPAT post abnormals</b>	<b>-3.2</b>	<b>-10.0</b>	<b>-7.8</b>	<b>-4.9</b>	<b>5.7</b>	Enterprise value (A\$m)	120.0	114.8	119.0	113.6	121.2	
						EV/Sales (x)	na	na	na	37.9	8.7	
<b>Cash flow statement</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>	EV/EBITDA (x)	-36.5	-11.5	-15.4	-23.3	20.7	
EBITDA	-3.3	-10.0	-7.7	-4.9	5.8	EV/EBIT (x)	-36.5	-11.2	-14.9	-22.1	21.7	
Change in working capital	0.9	4.7	2.0	-0.2	-0.9	<b>PE (x)</b>	<b>-28.0</b>	<b>-9.2</b>	<b>-13.6</b>	<b>-21.8</b>	<b>21.5</b>	
Net interest (pd)/rec	0.0	0.2	0.2	0.3	0.1	PEG x)	-0.2	0.0	-0.4	-0.6	0.1	
Taxes paid	0.0	0.0	0.0	0.0	0.0							
Other oper cash items	0.0	0.0	0.0	0.0	0.0							
<b>Cash flow from ops (1)</b>	<b>-2.3</b>	<b>-5.0</b>	<b>-5.5</b>	<b>-4.8</b>	<b>5.1</b>	<b>Per share data</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>	
Capex (2)	0.0	0.0	0.0	0.0	0.0	No. shares	648.8	659.0	659.0	759.0	759.0	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-0.5	-1.5	-1.0	-0.6	0.6	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	
<b>Cash flow from investing (3)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	
Incr/(decr) in equity	13.1	0.3	10.0	0.0	2.8	<b>Dividend yield (%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0							
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	<b>Growth ratios</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Sales growth	-100.0%	na	na	na	366.7%	
Other financing cash flow	-1.1	0.0	0.0	0.0	0.0	Operating cost growth	396.4%	237.6%	-30.3%	1.6%	3.7%	
<b>Cash flow from fin (5)</b>	<b>12.0</b>	<b>0.3</b>	<b>10.0</b>	<b>0.0</b>	<b>2.8</b>	EBITDA growth	542.5%	202.9%	22.3%	37.1%	220.1%	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBITA growth	542.5%	211.1%	21.7%	35.9%	208.6%	
<b>Incr/(decr) cash (1+3+5+6)</b>	<b>9.7</b>	<b>-4.8</b>	<b>4.5</b>	<b>-4.8</b>	<b>7.9</b>	EBIT growth	542.5%	211.1%	21.7%	35.9%	208.6%	
Equity FCF (1+2+4)	-2.3	-5.0	-5.5	-4.8	5.1	NPAT growth	536.7%	208.8%	21.9%	37.7%	217.3%	
						Normalised EPS growth	115.2%	204.0%	32.2%	37.7%	201.0%	
<b>Balance sheet</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>	<b>Operating performance</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>	
Cash & deposits	13.7	8.6	12.7	7.3	14.9	Asset turnover (%)	0.0	2.0	0.0	5.7	24.0	
Trade debtors	0.1	0.1	0.0	0.1	0.6	EBITDA margin (%)	na	na	na	-162.2	41.8	
Inventory	0.0	0.0	0.0	0.2	0.7	EBIT margin (%)	na	na	na	-171.2	39.8	
Other current assets	0.0	1.2	1.2	1.2	1.2	Net profit margin (%)	na	na	na	-162.7	40.9	
Goodwill	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-20.5	-90.2		-105.6	-20.5	
Other intangible assets	2.4	2.2	1.9	1.6	1.4	Net debt (A\$m)	-13.7	-8.6	-12.7	-7.3	-14.9	
Fixed assets	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-85.6	-75.4	-96.3	-94.3	-93.2	
Investments	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)						
Other assets	0.0	0.0	0.0	0.0	0.0	Invested capital	3.2	7.5	2.5	0.2	0.2	
<b>Total assets</b>	<b>16.3</b>	<b>12.0</b>	<b>15.8</b>	<b>10.4</b>	<b>18.7</b>	ROIC (%)	-101.0	-133.4	-310.3	-2290.5	3252.1	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	<b>Internal liquidity</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>	
Trade payables	0.2	0.6	2.5	2.6	2.7	Current ratio (x)	62.6	16.8	5.5	3.4	6.5	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	0.0	12.5	0.0	48.7	40.1	
Other term liabilities	0.0	0.1	0.1	0.1	0.1	Payables turnover (x)	9.3	27.6	4.9	3.1	3.1	
Other liabilities	0.0	0.0	0.0	0.0	0.0							
<b>Total liabilities</b>	<b>0.2</b>	<b>0.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>							
Share capital	4.0	21.5	21.8	31.8	31.8							
Other reserves	0.0	1.3	6.3	6.3	6.3							
Retained earnings	-3.5	-6.7	-16.8	-24.9	-30.3							
Other equity	0.0	0.0	0.0	0.0	0.0							
Total equity	0.5	16.0	11.3	13.2	7.8							
Minority interest	0.0	0.0	0.0	0.0	0.0							
<b>Total shareholders' equity</b>	<b>0.5</b>	<b>16.0</b>	<b>11.3</b>	<b>13.2</b>	<b>7.8</b>							
<b>Total liabilities &amp; SE</b>	<b>16.3</b>	<b>12.0</b>	<b>15.8</b>	<b>10.4</b>	<b>18.7</b>							

SOURCE: MORGANS RESEARCH, COMPANY

**Queensland**

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan Partners	+61 7 3152 0600
Brisbane: North Quay	+61 7 3245 5466
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Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

**New South Wales**

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
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Scone	+61 2 6544 3144
Sydney: Level 7	+61 2 8216 5111
Currency House	
Sydney:	+61 2 8215 5000
Grosvenor Place	
Sydney Reynolds Securities	+61 2 9373 4452
Wollongong	+61 2 4227 3022

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Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
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South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
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**Western Australia**

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

**South Australia**

Adelaide	+61 8 8464 5000
Norwood	+61 8 8461 2800
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