

ResApp Health

Breathe Easy delivers

ADD (no change)

Current price:	A\$0.13
Target price:	A\$0.19
Previous target:	A\$0.19
Up/downside:	50.0%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$61.82m
	A\$86.64m
Average daily turnover:	US\$0.06m
	A\$0.08m
Current shares o/s	659.0m
Free float:	74.1%

- RAP has released positive results for its Australian adult respiratory study known as Breathe Easy.
- The study results from 979 adults showed >80% PPA and NPA for all respiratory conditions tested in the clinical trial.
- The key catalysts to come include regulatory clearance for pediatric applications in Europe and US.
- We have made no changes to our forecasts and the target price remains at A\$0.19.
- Our recommendation remains an Add for investors with a higher risk profile.

Breathe Easy study comes up trumps

RAP released positive top line results for its 979 adult prospective double-blind clinical study (known as Breathe Easy). RAP's smartphone-based algorithms were found to accurately diagnose all respiratory diseases included in the study: lower respiratory tract disease (recorded positive percent agreement (PPA) of 88% and negative percent agreement (NPA) of 89%), pneumonia (recorded PPA of 86% and NPA of 87%), asthma exacerbations (recorded PPA of 89% and NPA of 84%), chronic obstructive pulmonary disease (COPD) (recorded PPA of 86% and NPA of 85%) and COPD exacerbations (recorded PPA of 83% and NPA of 91%). The aim of the results was to achieve PPA and NPA of >80%. These results are in addition to the recently announced pediatric results that have been submitted for regulatory approval in Europe and the US. The adult respiratory market is estimated by Morgans to be three times larger than the pediatric market.

Upcoming catalysts

There are a number of short-term catalysts: 1) complete recruitment for an at-home obstructive sleep apnoea study (expect 2QCY19); 2) CE mark approval (expect 3QCY19); and 3) US FDA Clearance (expect 4QCY19). As at 31 December 2018 the cash reserves were A\$6.8m which is sufficient for the current programs.

No changes to forecasts

We have made no changes to our forecasts. The key assumption we have made is that the telehealth companies in the US will be the primary customers for the technology. Given the faster progress in Europe, we may see earlier adoption of the technology in this region.

Investment view – Add recommendation maintained

Given there are no changes to forecasts our DCF derived valuation remains unchanged at A\$0.19. The target price has been set at the same level. The downside risk is failure to achieve FDA and CE mark clearance in a timely manner. RAP is recommended only for investors with a higher risk profile. We retain an Add recommendation.



Price performance	1M	3M	12M
Absolute (%)	47.1	25	-13.8
Relative (%)	46	18.5	-20.6

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

Iain WILKIE

T (61) 7 3334 4521

E iain.wilkie@morgans.com.au

Analyst(s) own shares in the following stock(s) mentioned in this report:

– ResApp Health

Financial Summary

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (A\$m)	1.14	1.00	0.00	2.24	21.60
Operating EBITDA (A\$m)	-9.97	-6.49	-7.04	-4.91	14.00
Net Profit (A\$m)	-10.03	-6.53	-7.24	-5.07	13.79
Normalised EPS (A\$)	(0.015)	(0.010)	(0.010)	(0.007)	0.019
Normalised EPS Growth	204%	(35%)	5%	(33%)	
FD Normalised P/E (x)	NA	NA	NA	NA	6.67
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	5.39
P/FCFE (x)	NA	NA	NA	NA	7.39
Net Gearing	(75.4%)	(60.4%)	(94.8%)	(93.9%)	(91.5%)
P/BV (x)	7.26	14.86	15.33	28.44	5.09
ROE	(73%)	(77%)	(129%)	(115%)	130%
Normalised EPS/consensus EPS (x)			0.010	0.010	0.010

SOURCE: MORGANS, COMPANY REPORTS

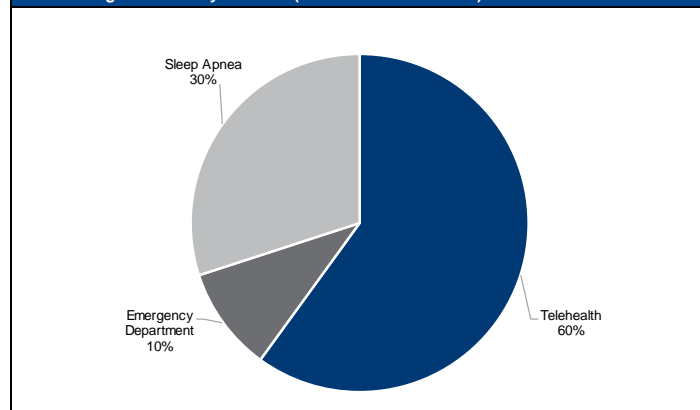
Figure 1: Business snapshot

ResApp Health (as at 23-04-19)		RAP AU / RAP.AX		Health Care Equipment & Services	
Market cap (A\$m):	85.7	Rating:	ADD		
Shares outstanding (m):	659.0	Price (A\$):	0.13		
Free float (%):	74%	Target price (A\$):	0.19		
Company website:	www.resapphealth.com.au	Upside/downside to target price (%):	46.8%		

Company description

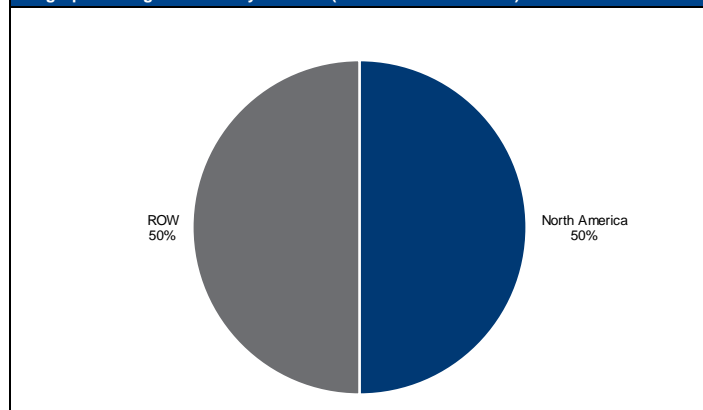
ResApp Health Limited (RAP) is a digital health company developing smartphone applications for the diagnosis and management of respiratory disease. The technology is based on machine learning algorithms that use cough sounds to diagnose and measure the severity of respiratory conditions without the need for additional hardware. TECHNOLOGY: RAP was created to diagnose and measure the severity of a range of chronic and acute diseases such as pneumonia, asthma, bronchiolitis and chronic obstructive pulmonary disease (COPD) using this insight. ResApp has developed new machine-learning algorithms to measure the severity of OSA from a patient's overnight breathing and snoring sounds recorded using a smartphone placed on a bedside table.

Business segmentation by revenue (medium-term estimate)



SOURCE: MORGANS

Geographical segmentation by revenue (medium-term estimate)



SOURCE: MORGANS

Basic revenue assumptions on ResAppDX (\$US)

Assumptions	2017A	2018A	2019F	2020F	2021F
Clinical Revenue					
\$ Fee / test		5.0	5.0	5.0	5.0
Patient visits to ED/GP (m)	1,199	1,259	1,322	1,388	1,388
% present with respiratory	10%	10%	10%	10%	10%
Children/Adult split	25%	25%	35%	45%	45%
Total address market (m)	149.9	157.3	231.3	312.3	312.3
Market share	0.0%	0.0%	0.0%	0.0%	0.0%
Revenue - Clinical (US\$m)	0.0	0.0	0.0	0.0	0.0
Telehealth Revenue					
\$ Fee / test		4.0	4.0	4.0	4.0
# Providers	0	0	1	1	6
Avg consults p.a. / provider (m)	0	3	4	5	5
Patients presenting with problem	30%	30%	30%	30%	30%
Market addressable (children/adults)	25%	25%	35%	45%	45%
Total address market (m)	0.00	0.00	0.42	4.05	4.05
Weighting within FY (%)	50%	100%	100%	100%	100%
Revenue - Telehealth (US\$m)	0.0	0.0	0.0	1.7	16.2

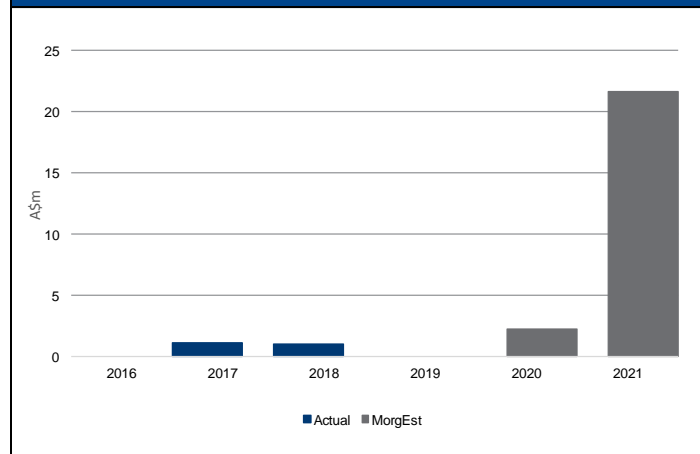
SOURCE: MORGANS

Milestone table

Timing	Milestone	Outcome
4QCY18	Top-line data from SMARTCOUGH-C-2	Mixed
2QCY19	File de novo premarket submission with FDA for lead pediatric product	Achieved
1QCY19	File for CE Mark in Europe for lead pediatric product	Achieved
1QCY19	SMARTCOUGH-C-2 Croup results	Insufficient data
2QCY19	Additional Australian adult study results	Achieved
3QCY19	CE Mark Clearance for pediatric application	
4QCY19	FDA clearance for lead pediatric product	
4QCY19	Initial US commercialisation via telehealth partnership	

SOURCE: MORGANS, COMPANY

Revenue



SOURCE: MORGANS, COMPANY

Key drivers / risks

Key Drivers

- Objective and repeatable** - the trend towards medical diagnostics being both objective and repeatable.
- Scalability** - the low cost nature of the technology makes it easily scaleable for the tele-health providers and primary care physicians
- Catalysts** - the Australian adult respiratory study.

Key risks:

- Regulatory clearances** yet to be received from FDA in the US (largest and most immediate potential revenue source) and CE Mark in Europe.
- Clinical** - a number of trials are yet to read out - poor results could impact the ability to commercialise the technology.
- Funding risk** - delays in receiving clearances could impact the commercialisation timelines resulting in further working capital being required.
- FX risk** - Main source of revenues are expected to be generated in overseas jurisdictions.

SOURCE: MORGANS, COMPANY

Queensland

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
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Brisbane: Tynan	+61 7 3152 0600
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Warrnambool	+61 3 5559 1500

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
Exchange Place	+61 8 7325 9200
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