

ResApp Health

Plenty ahead to maintain momentum

ADD (no change)

Current price:	A\$0.18
Target price:	A\$0.23
Previous target:	A\$0.19
Up/downside:	26.6%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$87.96m
	A\$124.8m
Average daily turnover:	US\$0.12m
	A\$0.17m
Current shares o/s	659.0m
Free float:	74.1%

- RAP has released its quarterly cashflow report showing a reduced cash-burn post finalisation of the US children's trial and sufficient cash to fund its current programs through to regulatory approval.
- Overall, an impressive quarter with a number of major events including regulatory submissions to the FDA as well as CE Mark technical filing for use of the diagnostic algorithm in children.
- The strong Australian adult results added some much needed momentum back into the story which we see as likely to be maintained over the next 12 months with positive sleep apnoea study results and regulatory approvals expected.
- We have rolled forward our model to include FY22 forecasts, resulting in a DCF valuation of A\$0.23 (from A\$0.19).
- Our recommendation remains an Add for investors with a higher risk profile.

No surprises in quarterly update

No real surprises as expected, with cash-burn reducing to A\$1.5m (from A\$1.8m average to date in FY19) with the SMARTCOUGH-2 trial expenses being finalised in the previous two quarters. RAP forecasts a slightly lower outflow for 4Q, with lower R&D expenses expected. With an expected A\$1.7m R&D rebate for its FY18 overseas study costs in addition to a 3Q19 cash balance of A\$5.3m, we view RAP as sufficiently funded for the current programs.

Upcoming catalysts

There are a number of short-term catalysts: 1) complete recruitment for an at-home obstructive sleep apnoea study (expect 2QCY19); 2) children's CE mark approval (expect 3QCY19); and 3) children's US FDA Clearance (expect 4QCY19).

Changes to forecasts – expanding our forecast years

We have made no changes to our near-term forecasts although take an opportunity to roll forward our model to include FY22. This results in an increase of A\$0.04 to our DCF valuation to A\$0.23 (from A\$0.19). Our model only attributes value to the telehealth segment for the cough diagnostic as the first target upon commercialisation. The Clinical, Non-Governmental Organisation (NGOs), and Direct to Consumer (DTC) segments remain a significant upside risk to our forecasts which we will continue to review as commercialisation approaches.

Investment view – Add recommendation maintained

Our DCF derived valuation increases to A\$0.23 (from 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 (%)	109.3	83.7	20
Relative (%)	106.4	75.4	13.2

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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	9.61
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	8.28
P/FCFE (x)	NA	NA	NA	NA	10.65
Net Gearing	(75.4%)	(60.4%)	(94.8%)	(93.9%)	(91.5%)
P/BV (x)	10.45	21.40	22.08	40.95	7.32
ROE	(73%)	(77%)	(129%)	(115%)	130%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			0.010	0.010	0.010

SOURCE: MORGANS, COMPANY REPORTS

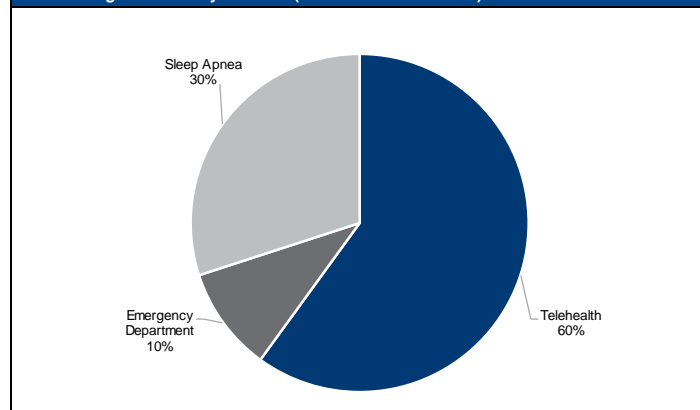
Figure 1: Business snapshot

ResApp Health (as at 30-04-19)		RAP AU / RAP.AX		Health Care Equipment & Services	
Market cap (A\$m):	118.6	Rating:		ADD	
Shares outstanding (m):	659.0	Price (A\$):		0.18	
Free float (%):	74%	Target price (A\$):		0.23	
Company website:	www.resapphealth.com.au	Upside/downside to target price (%):		26.6%	

Company description

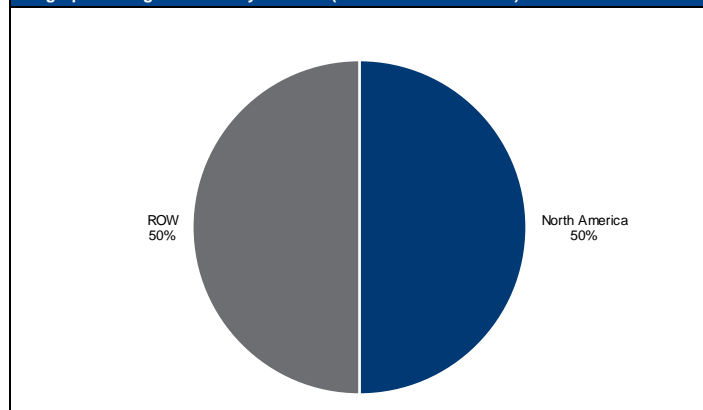
ResApp Health Limited (RAP) is a digital health company developing smartphone applications for the diagnosis and management of respiratory disease. The technology is based on machine learning algorithms that use cough sounds to diagnose and measure the severity of respiratory conditions without the need 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	5.0
Patient visits to ED/GP (m)	1,199	1,259	1,322	1,388	
% present with respiratory	10%	10%	10%	10%	
Children/Adult split	25%	25%	35%	45%	
Total address market (m)	149.9	157.3	231.3	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	4.0
# Providers	0	0	1	6	
Avg consults p.a. / provider (m)	0	3	4	5	
Patients presenting with problem	30%	30%	30%	30%	
Market addressable (children/adults)	25%	25%	35%	45%	
Total address market (m)	0.00	0.00	0.42	4.05	
Weighting within FY (%)	50%	100%	100%	100%	
Revenue- Telehealth (US\$m)	0.0	0.0	0.0	1.7	16.2
Revenue- Direct (US\$m)	0.0	0.0	0.0	0.0	0.0
Total revenue - ResApp (US\$m)	0.0	0.0	0.0	1.7	16.2
AUDUSD FX	0.8	0.75	0.75	0.75	0.75
Total revenue - ResApp (A\$m)	0.0	0.0	0.0	2.2	21.6

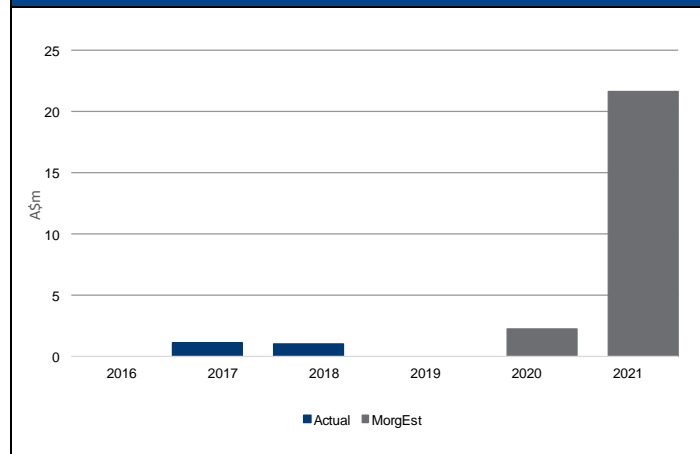
SOURCE: MORGANS

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

Figure 2: Financial summary

Income statement						Valuation metrics					
	FY17A	FY18A	FY19F	FY20F	FY21F	Share price (A\$)	0.18	Price Target (A\$)	\$0.23		
Total revenue	1.1	1.0	0.0	2.2	21.6	DCF valuation inputs			10-year rate	4.00%	
EBITDA	-10.0	-6.5	-7.0	-4.9	14.0	Rf	4.00%		Margin	2.0%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	5.00%		Kd	4.20%	
Depreciation	0.0	0.0	0.0	0.0	0.0	Beta	1.70		Ke	12.5%	
EBITA	-10.2	-6.6	-7.3	-5.2	13.7	CAPM (Rf+Beta(Rm-Rf))	12.5%		NPV cash flow (A\$m)	152.5	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%		Minority interest (A\$m)	0.0	
EBIT	-10.2	-6.6	-7.3	-5.2	13.7	Debt (D/EV)	0.0%		Net debt (A\$m)	-5.4	
Net interest expense	0.2	0.1	0.1	0.1	0.1	Interest rate	4.20%		Investments (A\$m)	0.0	
Pre-tax profit	-10.0	-6.5	-7.2	-5.1	13.8	Tax rate (t)	30.0%		Equity market value (A\$m)	157.9	
Income tax expense	0.0	0.0	0.0	0.0	0.0	WACC	12.5%		Diluted no. of shares (m)	693.0	
After-tax profit	-10.0	-6.5	-7.2	-5.1	13.8				DCF valuation		
Minority interests	0.0	0.0	0.0	0.0	0.0				\$0.23		
NPAT	-10.0	-6.5	-7.2	-5.1	13.8						
Significant items	0.0	0.0	0.0	0.0	0.0						
NPAT post abnormals	-10.0	-6.5	-7.2	-5.1	13.8						
Cash flow statement						Multiples					
	FY17A	FY18A	FY19F	FY20F	FY21F		FY17A	FY18A	FY19F	FY20F	FY21F
EBITDA	-10.0	-6.5	-7.0	-4.9	14.0	Enterprise value (A\$m)	133.3	128.2	130.2	127.8	141.4
Change in working capital	4.7	0.2	1.6	-0.2	-1.6	EV/Sales (x)	na	na	na	57.1	6.5
Net interest (pd)/rec	0.2	0.1	0.1	0.1	0.1	EV/EBITDA (x)	-13.4	-19.8	-18.5	-26.0	10.1
Taxes paid	0.0	0.0	0.0	0.0	0.0	EV/EBIT (x)	-13.0	-19.4	-17.8	-24.7	10.3
Other oper cash items	0.0	0.0	0.0	0.0	0.0	PE (x)	-11.8	-18.2	-17.2	-25.6	9.6
Cash flow from ops (1)	-5.0	-6.2	-5.3	-5.0	12.4	PEG x)	0.1	-0.5	3.2	-0.8	0.0
Capex (2)	0.0	0.0	0.0	0.0	0.0						
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Per share data					
Other investing cash flow	0.0	0.0	0.0	0.0	0.0		FY17A	FY18A	FY19F	FY20F	FY21F
Cash flow from investing (3)	0.0	0.0	0.0	0.0	0.0	No. shares	659.0	659.0	659.0	693.0	721.0
Incr/(decr) in equity	0.3	0.0	7.5	2.8	1.2	EPS (cps)	-1.5	-1.0	-1.0	-0.7	1.9
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Growth ratios					
Cash flow from fin (5)	0.3	0.0	7.5	2.8	1.2		FY17A	FY18A	FY19F	FY20F	FY21F
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Sales growth	na	na	na	na	864.3%
Inc/(decr) cash (1+3+5+6)	-4.8	-6.2	2.1	-2.2	13.7	Operating cost growth	237.6%	-32.6%	-6.0%	1.5%	6.3%
Equity FCF (1+2+4)	-5.0	-6.2	-5.3	-5.0	12.4	EBITDA growth	-202.9%	34.9%	-8.5%	30.3%	385.3%
						EBITA growth	-211.1%	35.3%	-10.4%	29.2%	365.3%
						EBIT growth	-211.1%	35.3%	-10.4%	29.2%	365.3%
						NPAT growth	-208.8%	34.9%	-10.8%	30.0%	371.9%
						Normalised EPS growth	-204.0%	34.9%	-5.4%	32.7%	366.4%
Balance sheet						Operating performance					
	FY17A	FY18A	FY19F	FY20F	FY21F		FY17A	FY18A	FY19F	FY20F	FY21F
Cash & deposits	8.6	3.4	5.4	3.0	16.6	Asset turnover (%)	2.0	2.7	0.0	8.1	40.8
Trade debtors	0.1	0.0	0.0	0.1	0.9	EBITDA margin (%)	na	na	na	-219.1	64.8
Inventory	0.0	0.0	0.0	0.1	1.1	EBIT margin (%)	na	na	na	-231.1	63.6
Other current assets	1.2	1.0	1.0	1.0	1.0	Net profit margin (%)	na	na	na	-226.4	63.8
Goodwill	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-90.2		-105.6	-20.5	-90.2
Other intangible assets	2.2	2.0	1.8	1.5	1.2	Net debt (A\$m)	-8.6	-3.3	-5.4	-3.0	-16.6
Fixed assets	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-75.4	-60.4	-94.8	-93.9	-91.5
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	7.5	2.4	1.9	0.0	-0.1
Total assets	12.0	6.5	8.1	5.7	20.8	ROIC (%)	-133.4	-275.2	-376.1	-21528.8	-17850.7
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity					
Trade payables	0.6	0.8	2.3	2.3	2.5		FY17A	FY18A	FY19F	FY20F	FY21F
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	16.8	5.8	2.8	1.8	7.8
Other term liabilities	0.1	0.1	0.1	0.1	0.1	Receivables turnover (x)	12.5	15.7	0.0	48.7	44.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	27.6	11.0	4.6	3.1	3.1
Total liabilities	0.6	1.0	2.5	2.5	2.7						
Share capital	21.8	21.8	29.3	32.1	33.3						
Other reserves	6.3	7.1	7.1	7.1	7.1						
Retained earnings	-16.8	-23.3	-30.7	-35.9	-22.3						
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	11.3	5.5	5.7	3.2	18.1						
Minority interest	0.0	0.0	0.0	0.0	0.0						
Total shareholders' equity	11.3	5.5	5.7	3.2	18.1						
Total liabilities & SE	12.0	6.5	8.1	5.7	20.8						

SOURCE: MORGANS RESEARCH, COMPANY

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