

ResApp Health

Critical six months ahead

SPECULATIVE BUY

(previously ADD)

Current price:	A\$0.16
Target price:	A\$0.23
Previous target:	A\$0.23
Up/downside:	46.5%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$76.69m
	A\$111.4m
Average daily turnover:	US\$0.19m
	A\$0.27m
Current shares o/s	659.0m
Free float:	74.1%

- RAP released its quarterly cashflow report, posting a small operating profit with the receipt of the R&D tax refund in the quarter.
- Underlying expenses remain well within our forecasts and retain sufficient funding for the current programs.
- We await a number of clinical and regulatory milestones which we view as significant catalysts and will continue to drive investor interest over the next six months prior to expected first commercialisation efforts.
- We have made no changes to forecasts or valuation. We maintain a positive recommendation for investors with a higher risk profile and move to a Speculative Buy (from Add).

Sufficient cash to fund current programs

RAP has released its 4Q19 cashflow report, indicating a net operating inflow of A\$254k for the quarter after receipt of its A\$1.8m R&D rebate. All operating expenses remain below yearly averages as forecast with the majority of costs and staffing associated with the cough trials finishing in the first half. RAP closed FY19 with a A\$5.5m cash balance which we view as sufficient to fund its current programs.

Upcoming catalysts

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

Achievements in the quarter point to regulatory confidence

As noted in RAP's quarterly commentary – there were a number of significant milestones achieved including positive results from the Australian adult cough study (>86% PPA and NPA), established an Industry Advisory Board (strategic counsel on commercialisation), development of a hardware component, and the presentation of a study published on the paediatric clinical studies. We view the establishment of the commercialisation board and the development of a standalone hardware component as positive and points to management's internal expectations of regulatory approval in the short-term.

Investment view – positive recommendation maintained

We have made no changes to our forecasts. As such, our DCF derived valuation remains at A\$0.23 where the target price has been set at the same level. The downside risk is a 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 our positive recommendation and move to a Speculative Buy recommendation (from Add).



Price performance	1M	3M	12M
Absolute (%)	-18	-8.6	14.3
Relative (%)	-21.4	-16.8	5.3

Iain WILKIE

T (61) 7 3334 4521

E iain.wilkie@morgans.com.au

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

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	8.54
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	7.23
P/FCFE (x)	NA	NA	NA	NA	9.46
Net Gearing	(75.4%)	(60.4%)	(94.8%)	(93.9%)	(91.5%)
P/BV (x)	9.29	19.02	19.62	36.40	6.51
ROE	(73%)	(77%)	(129%)	(115%)	130%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			1.04	0.70	0.94

SOURCE: MORGANS, COMPANY REPORTS

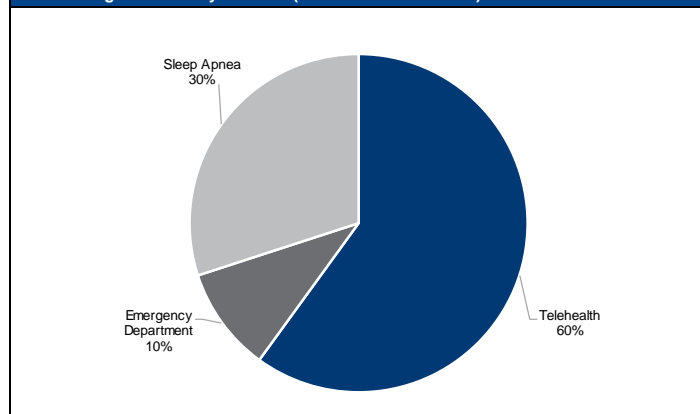
Figure 1: Business snapshot

ResApp Health (as at 31-07-19)		RAP AU / RAP.AX	Health Care Equipment & Services
Market cap (A\$m):	118.6	Rating:	SPECULATIVE BUY
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 (%):	30.3%

Company description

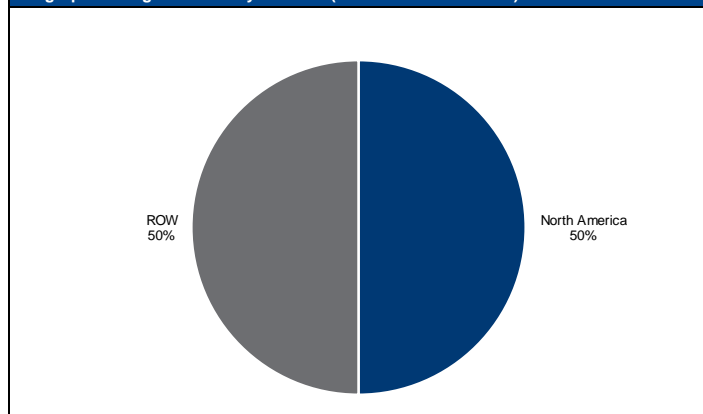
ResApp Health Limited (RAP) is a digital health company developing smartphone applications for the diagnosis and management of respiratory disease. The technology is based on machine learning algorithms that use cough sounds to diagnose and measure the severity of respiratory conditions without the need 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	1,259	1,322	1,388
% present with respiratory	10%	10%	10%	10%	10%
Children/Adult split	25%	25%	35%	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
# 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

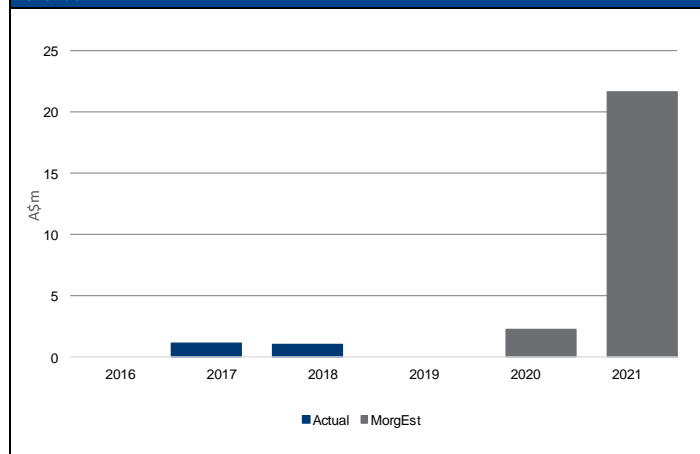
SOURCE: MORGANS

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)	157.1	
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)	162.5	
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						
Cash flow from fin (5)	0.3	0.0	7.5	2.8	1.2	Growth ratios					
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0		FY17A	FY18A	FY19F	FY20F	FY21F
Inc/(decr) cash (1+3+5+6)	-4.8	-6.2	2.1	-2.2	13.7	Sales growth	na	na	na	na	864.3%
Equity FCF (1+2+4)	-5.0	-6.2	-5.3	-5.0	12.4	Operating cost growth	237.6%	-32.6%	-6.0%	1.5%	6.3%
						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%
						Operating performance					
							FY17A	FY18A	FY19F	FY20F	FY21F
						Asset turnover (%)	2.0	2.7	0.0	8.1	40.8
						EBITDA margin (%)	na	na	na	-219.1	64.8
						EBIT margin (%)	na	na	na	-231.1	63.6
						Net profit margin (%)	na	na	na	-226.4	63.8
						Return on net assets (%)	-90.2		-105.6	-20.5	-90.2
						Net debt (A\$m)	-8.6	-3.3	-5.4	-3.0	-16.6
						Net debt/equity (%)	-75.4	-60.4	-94.8	-93.9	-91.5
						Net interest/EBIT cover (x)					
						Invested capital	7.5	2.4	1.9	0.0	-0.1
						ROIC (%)	-133.4	-275.2	-376.1	-21528.8	-17850.7
						Internal liquidity					
							FY17A	FY18A	FY19F	FY20F	FY21F
						Current ratio (x)	16.8	5.8	2.8	1.8	7.8
						Receivables turnover (x)	12.5	15.7	0.0	48.7	44.1
						Payables turnover (x)	27.6	11.0	4.6	3.1	3.1
Balance sheet											
	FY17A	FY18A	FY19F	FY20F	FY21F						
Cash & deposits	8.6	3.4	5.4	3.0	16.6						
Trade debtors	0.1	0.0	0.0	0.1	0.9						
Inventory	0.0	0.0	0.0	0.1	1.1						
Other current assets	1.2	1.0	1.0	1.0	1.0						
Goodwill	0.0	0.0	0.0	0.0	0.0						
Other intangible assets	2.2	2.0	1.8	1.5	1.2						
Fixed assets	0.0	0.0	0.0	0.0	0.0						
Investments	0.0	0.0	0.0	0.0	0.0						
Other assets	0.0	0.0	0.0	0.0	0.0						
Total assets	12.0	6.5	8.1	5.7	20.8						
Short-term borrowings	0.0	0.0	0.0	0.0	0.0						
Trade payables	0.6	0.8	2.3	2.3	2.5						
Long-term borrowings	0.0	0.0	0.0	0.0	0.0						
Other term liabilities	0.1	0.1	0.1	0.1	0.1						
Other liabilities	0.0	0.0	0.0	0.0	0.0						
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

Queensland

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South Australia

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For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

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