

# ResApp Health

## Not long now

### SPECULATIVE BUY

(no change)

Current price:	A\$0.32
Target price:	A\$0.40
Previous target:	A\$0.32
Up/downside:	27.4%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$150.4m A\$219.3m
Average daily turnover:	US\$0.53m A\$0.78m
Current shares o/s	659.0m
Free float:	74.1%

- RAP released its quarterly cashflow report, posting an operating cash loss in line with our expectations.
- Significant progress was achieved over the quarter including European and Australian approvals, positive results from its prospective at-home sleep apnoea study, and RAP being selected to join Sanofi's digital health program to co-create consumer health-focused respiratory disease products.
- Our focus is on the pending FDA clearance for the children's diagnostic (expected late-CY19 to early-CY20) and the potential for early sales across Europe and Australia (expected before June 2020) to prove up the business model.
- We upgrade our price target to A\$0.40 (from A\$0.32) and retain our Speculative Buy recommendation.

### 1Q20 cash burn in line with expectations

RAP has released its 1Q20 cashflow report, indicating a net operating outflow of A\$1.6m for the quarter. All operating expenses remain in line with our forecasts including an expected step-up in R&D costs in 2QFY20 (to \$850k vs \$628k this qtr) with the commencement of the Sanofi program in Europe, continued work on FDA approvals, and further development of the sleep apnoea product. RAP closed 1QFY20 with A\$3.7m in cash reserves.

### Upcoming catalysts

Investor focus remains firmly on a number of near-term catalysts: 1) Australian adult TGA clearance (expected 4QCY19); 2) children's US FDA clearance (expected 4QCY19 to early-1QCY20); and 3) initial commercialisation in EU/AUS (expected 2H20). While we don't anticipate significant revenues in the short-term, we are mainly watching for indicative pricing to confirm our assumptions and prove up the business model.

### Changes to forecasts

We have made no changes to our short-term forecasts however we continue to gradually reduce our risk weighting from FY23 onwards as regulatory hurdles are de-risked and commercialisation approaches. We have increased our fee per test to A\$5 (from A\$4) in FY23. Given the cash burn rate expected over the next six months, we do not rule out the possibility that additional capital may be required. We continue to see significant upside risk to our forecasts with the receipt of FDA approval for the children's diagnostic de-risking the investment case further (increasing addressable market) and early sales confirming the commerciality of the diagnostic both in terms of pricing and the type of institutions interested.

### Investment view – positive view maintained

Due to our changes in forecasts, our DCF valuation increases to A\$0.40 (from A\$0.32), where we have set our price target. Downside risks include failure to achieve FDA clearance in a timely manner. We retain our Speculative Buy recommendation. RAP is recommended for investors with a higher risk profile.



Price performance	1M	3M	12M
Absolute (%)	43.2	90.9	43.2
Relative (%)	42.8	92.1	25.4

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

– N/A

Financial Summary	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue (A\$m)	1.00	0.00	2.24	10.80	21.60
Operating EBITDA (A\$m)	-6.49	-7.04	-4.91	3.42	13.93
Net Profit (A\$m)	-6.53	-7.24	-5.07	3.30	13.90
Normalised EPS (A\$)	(0.010)	(0.010)	(0.007)	0.004	0.018
Normalised EPS Growth	(35%)	5%	(34%)		312%
FD Normalised P/E (x)	NA	NA	NA	71.75	17.40
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	65.96	15.50
P/FCFE (x)	NA	NA	NA	82.57	18.22
Net Gearing	(60.4%)	(94.8%)	(97.7%)	(95.0%)	(95.4%)
P/BV (x)	37.46	38.64	28.44	19.11	8.93
ROE	(77%)	(129%)	(73%)	32%	70%
% Change In Normalised EPS Estimates			2.26%	0.84%	(1.48%)
Normalised EPS/consensus EPS (x)			0.98	1.10	1.01

SOURCE: MORGANS, COMPANY REPORTS

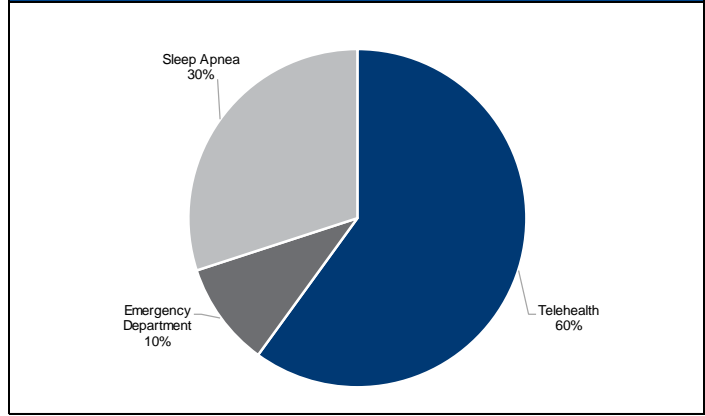
**Figure 1: Business snapshot**

ResApp Health (as at 30-10-19)		RAP AU / RAP.AX		Health Care Equipment & Services	
Market cap (A\$m):	218.3	Rating:			SPECULATIVE BUY
Shares outstanding (m):	693.0	Price (A\$):			0.32
Free float (%):	74%	Target price (A\$):			0.40
Company website:	www.resapphealth.com.au	Upside/downside to target price (%):			27.4%

**Company description**

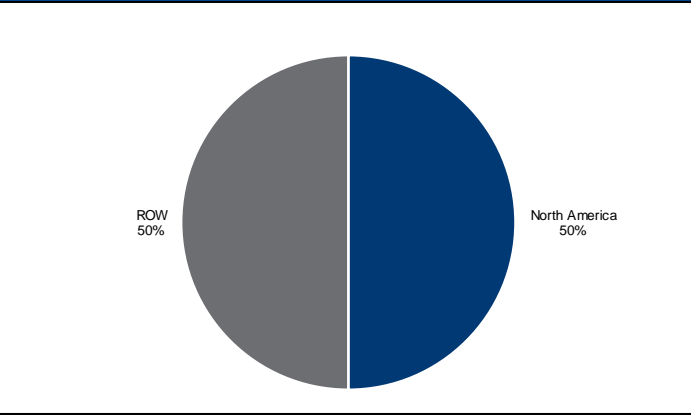
ResApp Health Limited (RAP) is a digital health company developing smartphone applications for the diagnosis and management of respiratory disease. The technology is based on machine learning algorithms that use cough sounds to diagnose and measure the severity of respiratory conditions without the need 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	2018A	2019A	2020F	2021F	2022F
<b>Clinical Revenue</b>					
\$ 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	1,457
% 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	327.9
Market share	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Revenue - Clinical (US\$m)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Telehealth Revenue</b>					
\$ Fee / test	4.0	4.0	4.0	4.0	4.0
# Providers	0	0	1	3	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	2.03	4.05
Weighting within FY (%)	50%	100%	100%	100%	100%
<b>Revenue - Telehealth (US\$m)</b>	<b>0.0</b>	<b>0.0</b>	<b>1.7</b>	<b>8.1</b>	<b>16.2</b>
<b>Revenue - Direct (US\$m)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total revenue - ResApp (US\$m)</b>	<b>0.0</b>	<b>0.0</b>	<b>1.7</b>	<b>8.1</b>	<b>16.2</b>
AUDUSD FX	0.75	0.75	0.75	0.75	0.75
<b>Total revenue - ResApp (A\$m)</b>	<b>0.0</b>	<b>0.0</b>	<b>2.2</b>	<b>10.8</b>	<b>21.6</b>

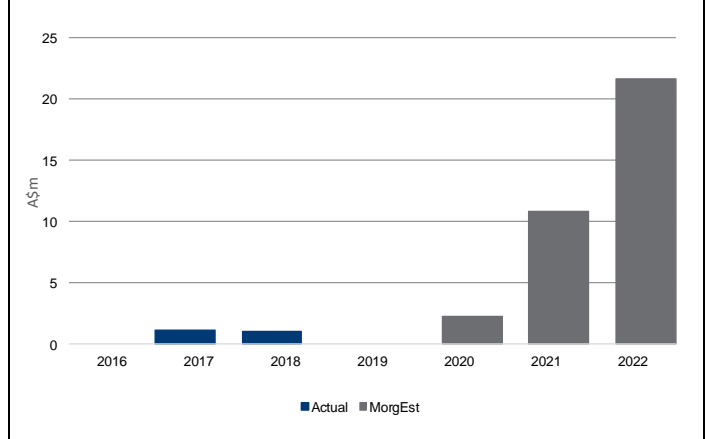
SOURCE: MORGANS

**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	Achieved
3QCY19	CE Mark Clearance for adult application	Achieved
4QCY19	FDA clearance for lead pediatric product	
1QCY20	Initial US commercialisation via telehealth partnership	
4QCY19	Sleep Apnea study top-line readouts	Achieved

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** - FDA clearance and initial commercialisation.

**Key risks:**

- Regulatory clearances** yet to be received from FDA in the US (largest potential revenue source).
- 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					
	FY18A	FY19A	FY20F	FY21F	FY22F	Share price (A\$)		Price Target (A\$)		DCF valuation	
<b>Total revenue</b>	1.0	0.0	2.2	10.8	21.6	<b>0.32</b>	<b>\$0.40</b>				
<b>EBITDA</b>	-6.5	-7.0	-4.9	3.4	13.9	<b>DCF valuation inputs</b>					
Associate income	0.0	0.0	0.0	0.0	0.0	Rf	4.00%	10-year rate	4.00%		
Depreciation	0.0	0.0	0.0	0.0	0.0	Rm-Rf	5.00%	Margin	2.0%		
EBITA	-6.6	-7.3	-5.2	3.1	13.7	Beta	1.70	Kd	4.20%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%		
<b>EBIT</b>	-6.6	-7.3	-5.2	3.1	13.7	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	288.2		
Net interest expense	0.1	0.1	0.1	0.2	0.2	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
Pre-tax profit	-6.5	-7.2	-5.1	3.3	13.9	Interest rate	4.20%	Net debt (A\$m)	-8.0		
Income tax expense	0.0	0.0	0.0	0.0	0.0	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
After-tax profit	-6.5	-7.2	-5.1	3.3	13.9	<b>WACC</b>	12.5%	Equity market value (A\$m)	296.1		
Minority interests	0.0	0.0	0.0	0.0	0.0			Diluted no. of shares (m)	737.7		
<b>NPAT</b>	-6.5	-7.2	-5.1	3.3	13.9			<b>DCF valuation</b>	<b>\$0.40</b>		
Significant items	0.0	0.0	0.0	0.0	0.0						
<b>NPAT post abnormals</b>	-6.5	-7.2	-5.1	3.3	13.9						
Cash flow statement						Multiples					
	FY18A	FY19A	FY20F	FY21F	FY22F		FY18A	FY19A	FY20F	FY21F	FY22F
EBITDA	-6.5	-7.0	-4.9	3.4	13.9	Enterprise value (A\$m)	239.5	241.5	244.1	247.9	262.0
Change in working capital	0.2	1.6	-0.2	-0.7	-0.9	EV/Sales (x)	na	na	109.0	23.0	12.1
Net interest (pd)/rec	0.1	0.1	0.1	0.2	0.2	EV/EBITDA (x)	-36.9	-34.3	-49.8	72.6	18.8
Taxes paid	0.0	0.0	0.0	0.0	0.0	EV/EBIT (x)	-36.2	-33.1	-47.2	78.8	19.2
Other oper cash items	0.0	0.0	0.0	0.0	0.0	<b>PE (x)</b>	<b>-32.3</b>	<b>-30.6</b>	<b>-46.6</b>	<b>72.9</b>	<b>17.7</b>
<b>Cash flow from ops (1)</b>	-6.2	-5.3	-5.0	2.9	13.3	PEG x)	-0.9	5.7	-1.4	0.4	0.1
Capex (2)	0.0	0.0	0.0	0.0	0.0	<b>Per share data</b>					
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	No. shares	659.0	659.0	693.0	737.7	752.7
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-1.0	-1.0	-0.7	0.4	1.8
<b>Cash flow from investing (3)</b>	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Incr/(decr) in equity	0.0	7.5	7.8	1.2	1.2	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	<b>Dividend yield (%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	<b>Growth ratios</b>					
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0		FY18A	FY19A	FY20F	FY21F	FY22F
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Sales growth	na	na	na	382.1%	100.0%
<b>Cash flow from fin (5)</b>	0.0	7.5	7.8	1.2	1.2	Operating cost growth	-32.6%	-6.0%	1.5%	3.3%	3.8%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBITDA growth	34.9%	-8.5%	30.3%	169.6%	307.9%
<b>Inc/(decr) cash (1+3+5+6)</b>	-6.2	2.1	2.8	4.1	14.5	EBITA growth	35.3%	-10.4%	29.2%	160.8%	334.2%
Equity FCF (1+2+4)	-6.2	-5.3	-5.0	2.9	13.3	EBIT growth	35.3%	-10.4%	29.2%	160.8%	334.2%
						NPAT growth	34.9%	-10.8%	30.0%	165.2%	320.6%
						Normalised EPS growth	34.9%	-5.4%	34.2%	163.9%	312.3%
Balance sheet						Operating performance					
	FY18A	FY19A	FY20F	FY21F	FY22F		FY18A	FY19A	FY20F	FY21F	FY22F
Cash & deposits	3.4	5.4	8.0	11.8	25.9	Asset turnover (%)	2.7	0.0	5.9	21.0	24.1
Trade debtors	0.0	0.0	0.1	0.4	0.9	EBITDA margin (%)	na	na	-219.1	31.6	64.5
Inventory	0.0	0.0	0.1	0.5	1.1	EBIT margin (%)	na	na	-231.1	29.1	63.3
Other current assets	1.0	1.0	1.0	1.0	1.0	Net profit margin (%)	na	na	-226.4	30.6	64.3
Goodwill	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)		-105.6	-20.5	-90.2	-119.4
Other intangible assets	2.0	1.8	1.5	1.2	0.9	Net debt (A\$m)	-3.3	-5.4	-8.0	-11.8	-25.8
Fixed assets	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-60.4	-94.8	-97.7	-95.0	-95.4
Investments	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)		2.4	1.9	0.0	-0.1
Other assets	0.0	0.0	0.0	0.0	0.0	Invested capital		-275.2	-376.1	-21528.8	-4277.9
<b>Total assets</b>	6.5	8.1	10.7	15.0	29.8	<b>ROIC (%)</b>	<b>-275.2</b>	<b>-376.1</b>	<b>-21528.8</b>	<b>-4277.9</b>	<b>3908.0</b>
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity					
Trade payables	0.8	2.3	2.3	2.4	2.5		FY18A	FY19A	FY20F	FY21F	FY22F
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	5.8	2.8	3.9	5.7	11.4
Other term liabilities	0.1	0.1	0.1	0.1	0.1	Receivables turnover (x)	15.7	0.0	48.7	40.3	32.4
Other liabilities	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	11.0	4.6	3.1	3.1	3.1
<b>Total liabilities</b>	1.0	2.5	2.5	2.6	2.7						
Share capital	21.8	29.3	37.1	38.3	39.5						
Other reserves	7.1	7.1	7.1	7.1	7.1						
Retained earnings	-23.3	-30.7	-35.9	-33.0	-19.5						
Other equity	0.0	0.0	0.0	0.0	0.0						
<b>Total equity</b>	5.5	5.7	8.2	12.4	27.1						
Minority interest	0.0	0.0	0.0	0.0	0.0						
<b>Total shareholders' equity</b>	5.5	5.7	8.2	12.4	27.1						
<b>Total liabilities &amp; SE</b>	6.5	8.1	10.7	15.0	29.8						

SOURCE: MORGANS RESEARCH, COMPANY

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