

ResApp Health

SPECULATIVE BUY

(previously HOLD)

| | |
|-------------------------|------------|
| Current price: | A\$0.14 |
| Target price: | A\$0.24 ▲ |
| Previous target: | A\$0.086 |
| Up/downside: | 71.4% |
| Reuters: | RAP.AX |
| Bloomberg: | RAP AU |
| Market cap: | US\$61.28m |
| | A\$101.6m |
| Average daily turnover: | US\$0.35m |
| | A\$0.54m |
| Current shares o/s | 693.0m |
| Free float: | 74.1% |

Major question answered

- RAP announced it has completed initial integration with its first major commercial partner CoviU and signed binding commercial terms for the non-exclusive two-year license for the technology.
- We view this as a significant step for RAP and importantly confirms the company's long-held indication of pricing structure within the \$5-\$10 per test range.
- We have wound back our discount to valuation due to our view that the recently announced Medicare rebate for telehealth consultations will likely drive increased demand for remote diagnostics such as the ResApp-DX.
- We upgrade our price target to A\$0.24 (from A\$0.09) and move to a Speculative Buy recommendation.

Solidifying CoviU deal and pricing

RAP announced it has completed its initial integration with CoviU's telehealth platform and signed binding commercial term sheets for an initial two-year period and extendable by mutual agreement. Importantly, the agreement confirms RAP's targeted range of A\$5 - \$10 to be received by the Company for each test performed. The two companies are progressing to formalise the license agreement and roll out the test across its systems within the coming months. As a reminder, the CoviU platform powers the Australian Government funded HealthDirect telehealth service with ~10,000 mental, allied health, specialist, and GPs using the service. This follows a number of positive releases last week from the company including integration into the Phenix telehealth platform and early-stage UK Health Research Authority (HRA) approvals to run cost-benefit evaluations for potential use in emergency departments. We view this setting as particularly important given the COVID-19 crisis and the ability to quickly triage and manage patients.

Telehealth getting traction

As announced by the Federal Government from 30 March 2020, telehealth consultations will now be fully reimbursed for bulk billed services for six months until September. While the reimbursed service has a number of restrictions (focus on high COVID-19 risk patients) and only granted for an initial six month period, we view this as a potential step-change for the industry with these consultations to become mainstream for minor illness situations.

Changes to forecasts – upping fee test assumptions

With initial confirmation of pricing structures, we have increased our longer-term fee per test assumptions to A\$5 (from A\$4) over our forecast periods and slightly moderated our FY20 assumptions due to likely timing of CoviU integration completion and first revenues.

Investment view – upgrade to Speculative Buy

Due to the above upgrades to our forecasts, our DCF valuation increases to A\$0.24 (from A\$0.17). We unwind our discount of 50% based on structural shifts in telehealth applications and further evidence of commercialisation and reduced our risk free rate to 3% (from 4%) in line with market rates. Our price target increases to A\$0.24 (from A\$0.09) and we upgrade to a Speculative Buy recommendation. Downside to our price target includes failure to rollout diagnostic across Europe and Australia in a timely manner.



| Price performance | 1M | 3M | 12M |
|-------------------|-------|-------|-------|
| Absolute (%) | -17.7 | -41.7 | 91.8 |
| Relative (%) | 9.6 | -12.7 | 112.0 |

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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 | 0.40 | 7.50 | 15.00 |
| Operating EBITDA (A\$m) | -6.49 | -7.04 | -6.71 | 0.18 | 7.46 |
| Net Profit (A\$m) | -6.53 | -7.24 | -6.87 | -0.00 | 7.30 |
| Normalised EPS (A\$) | (0.010) | (0.010) | (0.009) | (0.000) | 0.010 |
| Normalised EPS Growth | (34.9%) | 5.4% | (9.4%) | (100.0%) | |
| FD Normalised P/E (x) | NA | NA | NA | NA | 14.51 |
| DPS (A\$) | - | - | - | - | - |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% |
| EV/EBITDA (x) | NA | NA | NA | 542.6 | 12.4 |
| P/FCFE (x) | NA | NA | NA | NA | 15.22 |
| Net Gearing | (60.4%) | (94.8%) | (99.2%) | (93.6%) | (95.0%) |
| P/BV (x) | 16.65 | 17.17 | 23.28 | 19.07 | 7.68 |
| ROE | (77%) | (129%) | (137%) | (0%) | 76% |
| % Change In Normalised EPS Estimates | | | (20.6%) | 99.8% | 67.7% |
| Normalised EPS/consensus EPS (x) | | | 0.95 | 0.00 | 0.96 |

SOURCE: MORGANS, COMPANY REPORTS

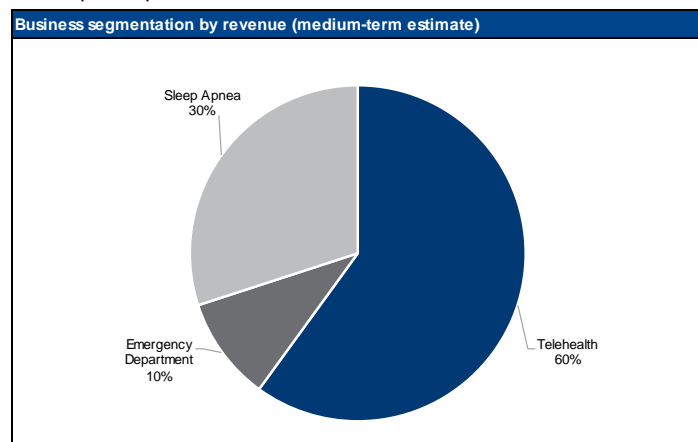
ResApp Health

as at March 30, 2020

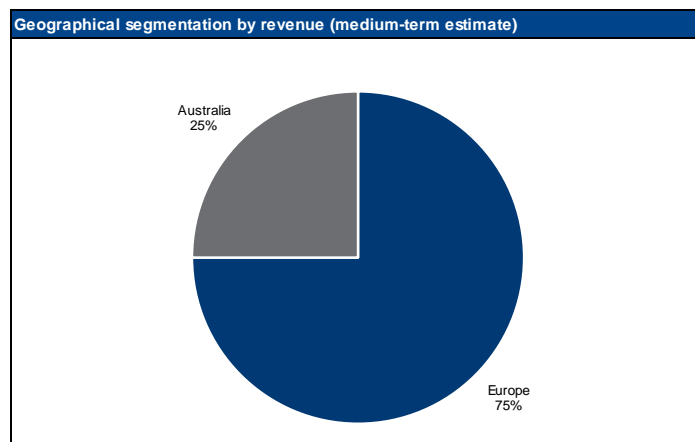
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|-------------------------|-------------------------|--------------------------------------|-----------------|
| Market cap (A\$m): | 101.6 | Rating: | SPECULATIVE BUY |
| Shares outstanding (m): | 693.0 | Price (A\$): | 0.14 |
| Free float (%): | 74.1 | Target price (A\$): | 0.24 |
| Website: | www.resapphealth.com.au | Upside/downside to target price (%): | 71.4 |

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.



SOURCE: MORGANS



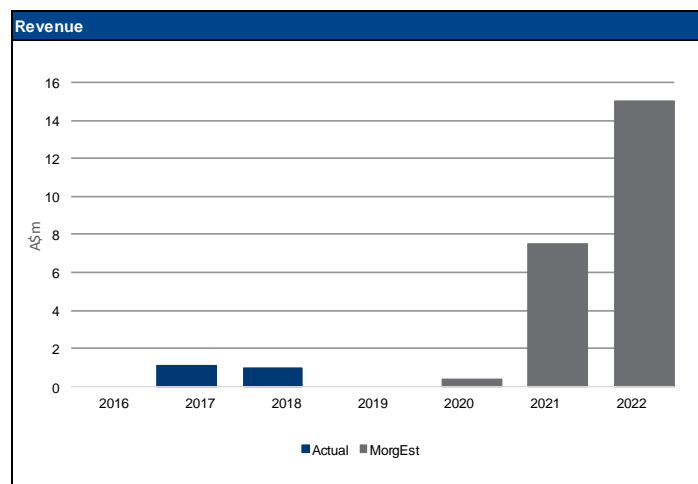
SOURCE: MORGANS

| Assumptions | 2018A | 2019A | 2020F | 2021F | 2022F |
|---------------------------------------|------------|------------|------------|------------|-------------|
| 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 | 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% |
| Revenue - Clinical (US\$m) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Telehealth Revenue | | | | | |
| \$ Fee / test | 4.0 | 4.0 | 4.0 | 5.0 | 5.0 |
| # 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% | 25% | 25% | 25% |
| Total address market (m) | 0.00 | 0.00 | 0.30 | 1.13 | 2.25 |
| Weighting within FY (%) | 50% | 100% | 25% | 100% | 100% |
| Revenue - Telehealth (US\$m) | 0.0 | 0.0 | 0.3 | 5.6 | 11.3 |
| Revenue - Direct (US\$m) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total revenue - ResApp (US\$m) | 0.0 | 0.0 | 0.3 | 5.6 | 11.3 |
| AUDUSD FX | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Total revenue - ResApp (A\$m) | 0.0 | 0.0 | 0.4 | 7.5 | 15.0 |

SOURCE: MORGANS

| 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 | Sleep Apnea study top-line readouts | Achieved |
| 2QCY20 | TGA clearance for Adult product | Achieved |
| 2QCY20 | FDA clearance for lead pediatric product | Failed |
| 3QCY20 | Lodgement of CE Mark submission for OSA | |
| 3QCY20 | Coviu integration | Achieved |
| 3QCY20 | Initial telehealth agreement EU | |

SOURCE: MORGANS, COMPANY



SOURCE: MORGANS, COMPANY

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|--|
| 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 single 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 1: Financial summary

| Income statement | FY18A | FY19A | FY20F | FY21F | FY22F |
|-------------------------|-------|-------|-------|-------|-------|
| Total revenue | 1.0 | 0.0 | 0.4 | 7.5 | 15.0 |
| EBITDA | -6.5 | -7.0 | -6.7 | 0.2 | 7.5 |
| Associate income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBITA | -6.6 | -7.3 | -7.0 | -0.1 | 7.2 |
| Amortisation/impairment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | -6.6 | -7.3 | -7.0 | -0.1 | 7.2 |
| Net interest expense | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Pre-tax profit | -6.5 | -7.2 | -6.9 | 0.0 | 7.3 |
| Income tax expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| After-tax profit | -6.5 | -7.2 | -6.9 | 0.0 | 7.3 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT | -6.5 | -7.2 | -6.9 | 0.0 | 7.3 |
| Significant items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT post abnormal | -6.5 | -7.2 | -6.9 | 0.0 | 7.3 |

| Cash flow statement | FY18A | FY19A | FY20F | FY21F | FY22F |
|------------------------------|-------|-------|-------|-------|-------|
| EBITDA | -6.5 | -7.0 | -6.7 | 0.2 | 7.5 |
| Change in working capital | 0.2 | 1.6 | 0.0 | -0.6 | -0.6 |
| Net interest (pd)/rec | 0.1 | 0.1 | 0.1 | 0.1 | 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 |
| Cash flow from ops (1) | -6.2 | -5.3 | -6.6 | -0.3 | 7.0 |
| Capex (2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals/(acquisitions) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investing cash flow | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from investing (3) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Incr/(decr) in equity | 0.0 | 7.5 | 5.8 | 1.2 | 1.2 |
| 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 |
| Preferred dividends (4) | 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) | 0.0 | 7.5 | 5.8 | 1.2 | 1.2 |
| Forex and disc ops (6) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Incr/(decr) cash (1+3+5+6) | -6.2 | 2.1 | -0.8 | 0.9 | 8.2 |
| Equity FCF (1+2+4) | -6.2 | -5.3 | -6.6 | -0.3 | 7.0 |

| Balance sheet | FY18A | FY19A | FY20F | FY21F | FY22F |
|----------------------------|-------|-------|-------|-------|-------|
| Cash & deposits | 3.4 | 5.4 | 4.4 | 5.1 | 13.1 |
| Trade debtors | 0.0 | 0.0 | 0.0 | 0.3 | 0.6 |
| Inventory | 0.0 | 0.0 | 0.0 | 0.4 | 0.8 |
| Other current assets | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other intangible assets | 2.0 | 1.8 | 1.5 | 1.2 | 0.9 |
| 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 | 6.5 | 8.1 | 6.9 | 8.0 | 16.4 |
| Short-term borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | 0.8 | 2.3 | 2.3 | 2.4 | 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 | 1.0 | 2.5 | 2.5 | 2.6 | 2.7 |
| Share capital | 21.8 | 29.3 | 35.1 | 36.3 | 37.5 |
| Other reserves | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 |
| Retained earnings | -23.3 | -30.7 | -37.7 | -37.9 | -30.8 |
| Other equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total equity | 5.5 | 5.7 | 4.4 | 5.4 | 13.8 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total shareholders' equity | 5.5 | 5.7 | 4.4 | 5.4 | 13.8 |
| Total liabilities & SE | 6.5 | 8.1 | 6.9 | 8.0 | 16.4 |

| Valuation metrics | | | | | |
|-----------------------|--------|----------------------------|--|--------|--------|
| Share price (A\$) | 0.085 | Price Target (A\$) | | \$0.24 | |
| DCF valuation inputs | | | | | |
| Rf | 3.00% | 10-year rate | | | 3.00% |
| Rm-Rf | 5.00% | Margin | | | 2.0% |
| Beta | 1.70 | Kd | | | 3.50% |
| CAPM (Rf+Beta(Rm-Rf)) | 11.5% | Ke | | | 11.5% |
| Equity (E/EV) | 100.0% | NPV cash flow (A\$m) | | | 166.7 |
| Debt (D/EV) | 0.0% | Minority interest (A\$m) | | | 0.0 |
| Interest rate | 3.50% | Net debt (A\$m) | | | -4.3 |
| Tax rate (t) | 30.0% | Investments (A\$m) | | | 0.0 |
| WACC | 11.5% | Equity market value (A\$m) | | | 171.0 |
| | | Diluted no. of shares (m) | | | 726.0 |
| | | DCF valuation | | | \$0.24 |

| Multiples | FY18A | FY19A | FY20F | FY21F | FY22F |
|-------------------------|-------|-------|-------|----------|-------|
| Enterprise value (A\$m) | 65.2 | 67.2 | 66.1 | 66.9 | 74.9 |
| EV/Sales (x) | na | na | 165.4 | 8.9 | 5.0 |
| EV/EBITDA (x) | -10.0 | -9.5 | -9.9 | 368.0 | 10.0 |
| EV/EBIT (x) | -9.8 | -9.2 | -9.5 | -767.4 | 10.4 |
| PE (x) | -8.6 | -8.1 | -9.0 | -24336.7 | 8.8 |
| PEG x) | -0.2 | 1.5 | -1.0 | -243.5 | 0.0 |

| Per share data | FY18A | FY19A | FY20F | FY21F | FY22F |
|---------------------------|-------|-------|-------|-------|-------|
| No. shares | 659.0 | 659.0 | 693.0 | 726.0 | 741.0 |
| EPS (cps) | -1.0 | -1.0 | -0.9 | 0.0 | 1.0 |
| Dividend per share (c) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout ratio (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Dividend yield (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

| Growth ratios | FY18A | FY19A | FY20F | FY21F | FY22F |
|-----------------------|--------|--------|-------|---------|---------|
| Sales growth | na | na | na | 1775.0% | 100% |
| Operating cost growth | -32.6% | -6.0% | 1.0% | 2.9% | 3% |
| EBITDA growth | 34.9% | -8.5% | 4.7% | 102.7% | 4005% |
| EBITA growth | 35.3% | -10.4% | 4.5% | 98.8% | 8353% |
| EBIT growth | 35.3% | -10.4% | 4.5% | 98.8% | 8353% |
| NPAT growth | 34.9% | -10.8% | 5.1% | 100.0% | 281963% |
| Normalised EPS growth | 34.9% | -5.4% | 9.4% | 100.0% | 276370% |

| Operating performance | FY18A | FY19A | FY20F | FY21F | FY22F |
|-----------------------------|--------|--------|----------|-------|--------|
| Asset turnover (%) | 2.7 | 0.0 | 1.3 | 25.1 | 30.6 |
| EBITDA margin (%) | na | na | -1677.6 | 2.4 | 49.8 |
| EBIT margin (%) | na | na | -1744.8 | -1.2 | 48.0 |
| Net profit margin (%) | na | na | -1718.5 | 0.0 | 48.6 |
| Return on net assets (%) | | -105.6 | -20.5 | -90.2 | -119.4 |
| Net debt (A\$m) | -3.3 | -5.4 | -4.3 | -5.1 | -13.1 |
| Net debt/equity (%) | -60.4 | -94.8 | -99.2 | -93.6 | -95.0 |
| Net interest/EBIT cover (x) | | 2.4 | 1.9 | 0.0 | -0.2 |
| Invested capital | | 2.4 | 1.9 | 0.0 | -0.2 |
| ROIC (%) | -275.2 | -376.1 | -29184.2 | 1.1 | 9513.3 |

| Internal liquidity | FY18A | FY19A | FY20F | FY21F | FY22F |
|--------------------------|-------|-------|-------|-------|-------|
| Current ratio (x) | 5.8 | 2.8 | 2.3 | 2.8 | 6.2 |
| Receivables turnover (x) | 15.7 | 0.0 | 48.7 | 46.2 | 32.4 |
| Payables turnover (x) | 11.0 | 4.6 | 3.1 | 3.1 | 3.1 |

SOURCE: MORGANS RESEARCH, COMPANY

Queensland

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Regulatory disclosures

Analyst owns shares in the following mentioned company(ies): N/A

Morgans Corporate Limited was Joint Lead Manager to the Placement of shares in ResApp Health Limited and received fees in this regard

Recommendation structure

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

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