

ResApp Health

Better sleep at home

SPECULATIVE BUY

(no change)

Current price:	A\$0.20
Target price:	A\$0.24
Previous target:	A\$0.24
Up/downside:	20.0%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$87.76m A\$145.2m
Average daily turnover:	US\$0.47m A\$0.74m
Current shares o/s	693.0m
Free float:	74.1%

- RAP has been on a rollercoaster ride recently with the FDA setback being offset by a rising awareness of RAP's technology to benefit from a sustained increase in demand for telehealth applications as a result of the health crisis.
- We have mapped out some broad numbers for RAP's new clinically accurate OSA (obstructive sleep apnea) risk product to give investors an idea of potential further upside to our current forecasts as the commercial proposition unfolds.
- We have made no changes to our forecasts and retain a Speculative Buy recommendation and price target of A\$0.24.

SleepCheck – clinically accurate screener for the average punter

RAP has developed the SleepCheck algorithm with recent studies showing high levels of accuracy when compared to alternative at-home monitoring and diagnosis of OSA. In its clinical study (n=238), SleepCheck correctly identified patients (sensitivity) with mild OSA (85% accuracy), moderate OSA (83% accuracy), and severe OSA (83% accuracy) while correctly determining when a patient did not fit within the various spectrums (known as specificity) - mild OSA (73%), moderate OSA (80%) and severe OSA (90%) when compared to an AASM Type II sleep study (full but unattended polysomnography test) performed simultaneously in the patient's home. The application works by analysing breathing and snoring sounds to determine a user's level of OSA risk by determining the level of hypoxia experienced during sleep. RAP has plans to launch an app across Australia and the UK in the coming months with pricing still to be determined.

Base case – just for OSA use

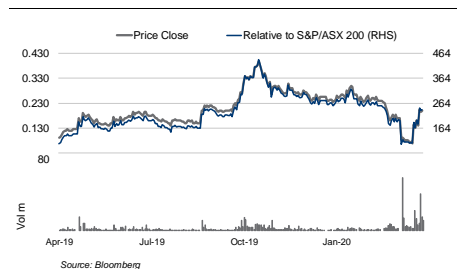
Pulling out the raw numbers on Australian Medicare CPT code statistics for reimbursable at-home and in-lab sleep exams – we find that there are approximately 180k tests performed in Australia p.a. This translates into roughly 0.7% of the population. Assuming the UK is broadly similar, a combined population of ~91m people, at 0.7% test rate at A\$10 per test is a market opportunity of ~ A\$6.4m p.a. We view it a fair assumption that people considering a A\$150 - A\$1,500 test are reasonably likely to pay \$10 for a quick screen prior to engaging professional help.

Bull case – for anyone that snores

Casting a wider net – we also see broader potential in habitual snorers. Given up to 95% of OSA sufferers are snorers, there is a strong link between the two and we see this as a quick and easy way to determine whether there are risk factors to OSA and prompt further clinical validation. Based on a number of reports, habitual snoring is estimated to affect 24% of women and 40% of men – or about 30% of the population. These statistics show a potential market opportunity of ~A\$270m p.a. in Australia and the UK alone.

Investment view – Speculative Buy

We have made no changes to our forecasts and our DCF valuation remains at A\$0.24. We have set the target price at the same level. At this stage we have not included in our forecasts the SleepCheck product and ResApp-DX verticals outside of Telehealth, noting the early nature and number of commercial questions still remain. The downside risk includes failure to roll out the cough diagnostic across Europe and Australia in a timely manner. We maintain our Speculative Buy rating for investors with a higher risk profile.



Price performance	1M	3M	12M
Absolute (%)	25	-18.4	117.
Relative (%)	43.4	2.9	132.

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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	20.73
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	787.1	18.5
P/FCFE (x)	NA	NA	NA	NA	21.75
Net Gearing	(60.4%)	(94.8%)	(99.2%)	(93.6%)	(95.0%)
P/BV (x)	23.78	24.53	33.26	27.25	10.97
ROE	(77%)	(129%)	(137%)	(0%)	76%
Normalised EPS/consensus EPS (x)			0.95	0.00	

SOURCE: MORGANS, COMPANY REPORTS

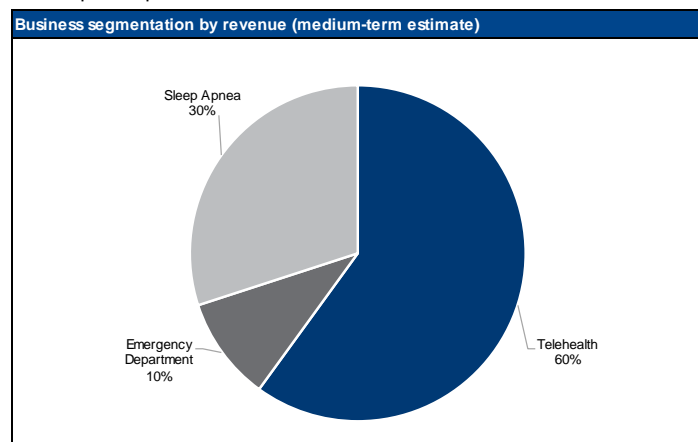
ResApp Health

as at April 2, 2020

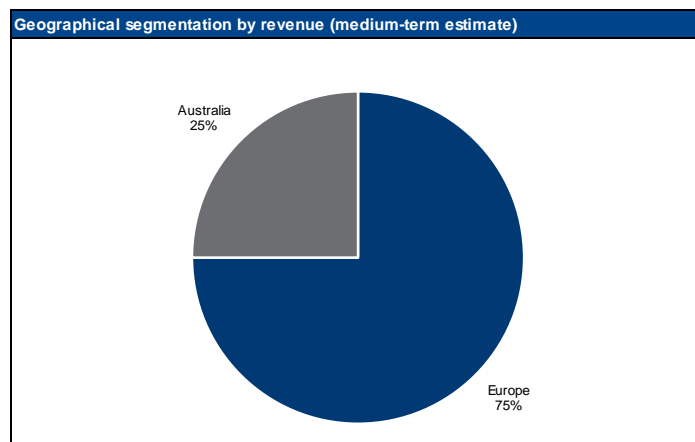
Market cap (A\$m):	145.2	Rating:	SPECULATIVE BUY
Shares outstanding (m):	693.0	Price (A\$):	0.20
Free float (%):	74.1	Target price (A\$):	0.24
Website:	www.resapphealth.com.au	Upside/downside to target price (%):	20.0

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



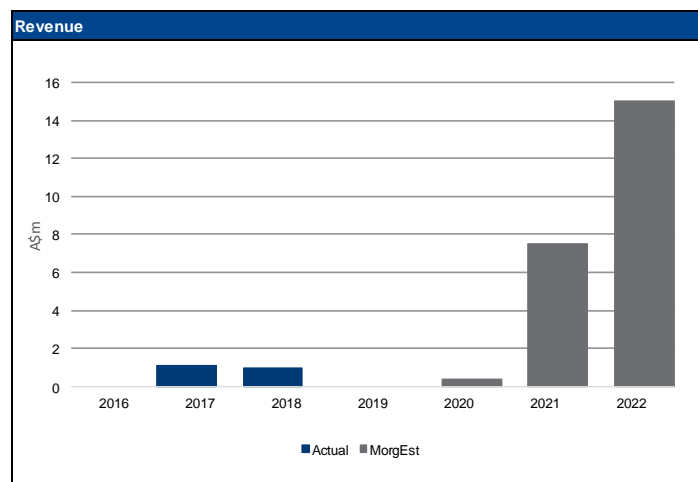
SOURCE: MORGANS

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	
2QCY20	Coviu integration	Underway
3QCY20	Phenix integration	
3QCY20	Initial telehealth agreement EU	

SOURCE: MORGANS, COMPANY



SOURCE: MORGANS, COMPANY

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 - Initial commercialisation and further deals with Telehealth organisations.
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\$)	\$0.20	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)	166.9		
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)	171.2		
		Diluted no. of shares (m)	726.0		
		DCF valuation	\$0.24		

Multiples	FY18A	FY19A	FY20F	FY21F	FY22F
Enterprise value (A\$m)	148.7	150.7	149.6	150.4	158.4
EV/Sales (x)	na	na	374.1	20.1	10.6
EV/EBITDA (x)	-22.9	-21.4	-22.3	827.2	21.2
EV/EBIT (x)	-22.5	-20.6	-21.4	-1725.1	22.0
PE (x)	-20.2	-19.1	-21.1	-5726.8	20.7
PEG x)	-0.6	3.5	-2.2	-572.8	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%	100%
Operating cost growth	-33%	-6%	1%	3%	3%
EBITDA growth	35%	-9%	5%	103%	4005%
EBITA growth	35%	-10%	4%	99%	8353%
EBIT growth	35%	-10%	4%	99%	8353%
NPAT growth	35%	-11%	5%	100%	281963%
Normalised EPS growth	35%	-5%	9%	100%	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)					
Invested capital	2.4	1.9	0.0	-0.2	0.1
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

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