

ResApp Health

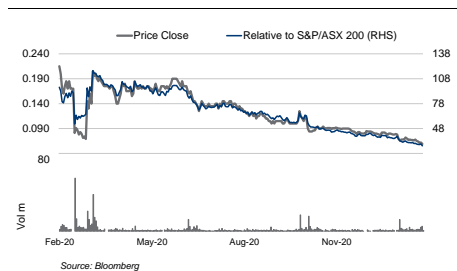
All eyes on me(dgate)

SPECULATIVE BUY

(no change)

Current price:	A\$0.059
Target price:	A\$0.13
Previous target:	A\$0.21
Up/downside:	120.3%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$35.34m
	A\$44.73m
Average daily turnover:	US\$0.09m
	A\$0.12m
Current shares o/s	758.2m
Free float:	74.1%

- RAP has released its 1H21 results with expense items in line with our forecasts. Focus continues to remain on burn rate and cash balance.
- The performance since commercialisation of the technology has clearly disappointed the market, with lower than expected usage numbers flowing through the Australian telehealth (TH) partners as the regulatory and reimbursement landscape proves to be more challenging than expected.
- The reality is Australia is a small market with low TH usage. Looking forward, the integration with large EU TH provider Medgate is nearing finalisation and expected to move into a trial phase shortly. We view the conversion of the trial into a paying client as a significant catalyst for a re-rate and marker for further partnerships with other EU TH providers.
- Our price target decreases to A\$0.13 (from A\$0.21) and we retain a Speculative Buy recommendation.



Price performance	1M	3M	12M
Absolute (%)	-25.3	-35.2	-74.9
Relative (%)	-25.9	-39.4	-70.7

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- N/A

1H results in line – eye on cash balance

RAP has released its 1H21 results which were in line with quarterly reporting outlining the slower than expected ramp to commercial revenues. The company reported revenue of A\$46k for the six months and a net loss of A\$3.1m which was in line with our expectations (MorgsE A\$3.1m). Operating cash outflow of A\$3.0m included A\$345k received in R&D rebates over the period. An additional A\$1.5m was received from the conversion of options in the half, leaving the company with A\$4.2m in cash (~3 quarters of funding based on the most recent quarterly report).

Opportunity knocks – RAP needs to convert

Slow initial revenues aside, the opportunity for RAP lies in EU where TH has a significantly higher adoption rate (rising from 25% pre-COVID, to 71% currently) compared to Australia with virtually no services in January 2020 to ~35% at its peak in April 2020 (4.3m appts). TH continues to track lower in Australia, now at 2.2m appointments in January 2021 (of which <2% are video consultations). Building a beachhead in EU is critical to RAP's future – and progression with integration with Medgate (~6k appointments per day) with conversion from integration to trial to paying partner critical. Our back of the envelope partnership value to RAP works out to be ~A\$2-3m pa once fully implemented.

Changes to forecasts

Given the slower-than-expected take-up in the Australian business and delays in EU partnerships, we have pared back our rollout assumptions to reflect a base-case scenario. We have rolled the first EU partnership from FY21 into FY22 and increased higher back-end FY weightings for new partners across over our FY21/22/23 forecast period. The timing of these impacts results in EPS changes of 28% / 134% / 58% respectively.

Investment view – confidence kicker required

Given our changes to forecasts, we reduce our DCF valuation and price target to A\$0.13 (from A\$0.21). With current sentiment at all-time lows, we view the next six months as critical to restoring investor confidence in management's ability to commercialise the technology. The downside risk includes failure to roll out the cough diagnostic across EU in a timely manner. We retain our Speculative Buy recommendation.

Financial Summary	Jun-19A	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	0.00	0.97	0.20	6.00	13.75
Operating EBITDA (A\$m)	-7.04	-8.52	-6.88	-1.27	6.25
Net Profit (A\$m)	-7.24	-8.52	-7.03	-1.41	6.09
Normalised EPS (A\$)	(0.010)	(0.011)	(0.008)	(0.002)	0.007
Normalised EPS Growth	5.4%	6.2%	(28.3%)	(80.2%)	
FD Normalised P/E (x)	NA	NA	NA	NA	8.84
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	6.65
P/FCFE (x)	NA	NA	NA	NA	9.40
Net Gearing	(93%)	(83%)	(103%)	(100%)	(97%)
P/BV (x)	7.09	6.48	8.71	9.51	4.25
ROE	(128%)	(134%)	(108%)	(24%)	67%
% Change In Normalised EPS Estimates			(28%)	(134%)	(58%)
Normalised EPS/consensus EPS (x)			0.80	-0.31	0.33

SOURCE: MORGANS, COMPANY REPORTS

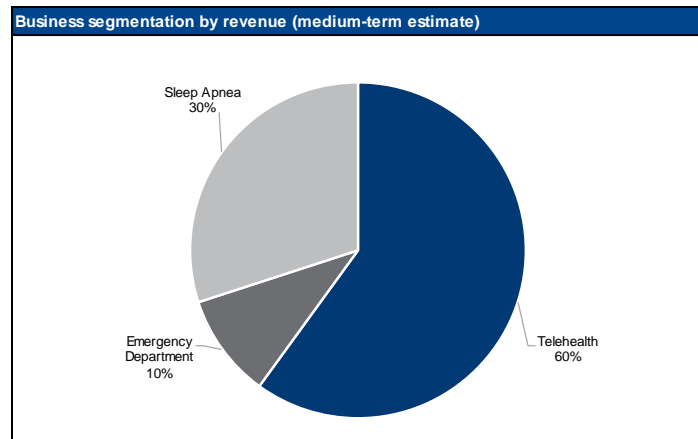
ResApp Health

as at February 24, 2021

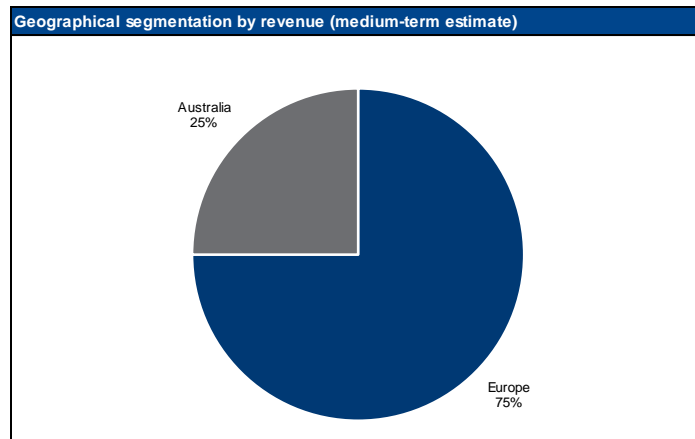
Market cap (A\$m):	44.73	Rating:	SPECULATIVE BUY
Shares outstanding (m):	758.2	Price (A\$):	0.059
Free float (%):	74.1	Target price (A\$):	0.13
Website:	www.resapphealth.com.au	Upside/downside to target price (%):	120.3

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.



SOURCE: MORGANS



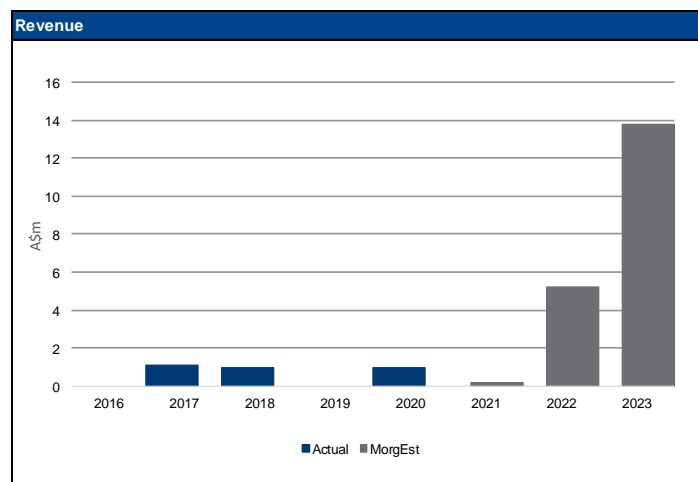
SOURCE: MORGANS

Assumptions	2018A	2019A	2020A	2021F	2022F	2023F
Clinical Revenue						
\$ Fee / test	5.0	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	1,530
% present with respiratory	10%	10%	10%	10%	10%	10%
Children/Adult split	25%	25%	35%	45%	45%	45%
Total address market (m)	149.9	157.3	231.3	312.3	327.9	344.3
Market share	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revenue - Clinical (US\$m)	0.0	0.0	0.0	0.0	0.0	0.0
Telehealth Revenue						
\$ Fee / test	4.0	4.0	4.0	5.0	5.0	5.5
# Providers	0	0	0	2	6	10
Avg consults p.a. / provider (m)	0	3	4	4	5	5
Patients presenting with problem	30%	30%	30%	30%	30%	30%
Market addressable (children/adults)	25%	25%	25%	25%	25%	25%
Total address market (m)	0.00	0.00	0.00	0.60	2.25	3.75
Weighting within FY (%)	0%	0%	0%	5%	35%	50%
Revenue - Telehealth (US\$m)	0.0	0.0	0.0	0.2	3.9	10.3
Revenue - Direct (US\$m)	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue - ResApp (US\$m)	0.0	0.0	0.0	0.2	3.9	10.3
AUDUSD FX	0.75	0.75	0.75	0.75	0.75	0.75
Total revenue - ResApp (A\$m)	0.0	0.0	0.0	0.2	5.3	13.8

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	Covu integration	Achieved
3QCY20	Phenix integration	Achieved
1QCY21	Initial telehealth agreement EU	
2QCY21	US FDA 510(k) submission for SleepCheck	

SOURCE: MORGANS, COMPANY



SOURCE: MORGANS, COMPANY

<p>Key Drivers</p> <p>Objective and repeatable - the trend towards medical diagnostics being both objective and repeatable.</p> <p>Scalability - the low cost nature of the technology makes it easily scaleable for the tele-health providers and primary care physicians</p> <p>Catalysts - Initial commercialisation and further deals with Telehealth organisations.</p> <p>Key risks:</p> <p>Regulatory clearances yet to be received from FDA in the US (largest single potential revenue source).</p> <p>Clinical - a number of trials are yet to read out - poor results could impact the ability to commercialise the technology.</p> <p>Funding risk - delays in receiving clearances could impact the commercialisation timelines resulting in further working capital being required.</p> <p>FX risk - Main source of revenues are expected to be generated in overseas jurisdictions.</p>

SOURCE: MORGANS, COMPANY

Figure 1: Financial summary

Income statement	FY19A	FY20A	FY21F	FY22F	FY23F
Total revenue	0.0	1.0	0.2	6.0	13.8
EBITDA	-7.0	-8.5	-6.9	-1.3	6.3
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBITA	-7.3	-8.5	-7.1	-1.5	6.0
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	-7.3	-8.5	-7.1	-1.5	6.0
Net interest expense	0.1	0.0	0.1	0.1	0.1
Pre-tax profit	-7.2	-8.5	-7.0	-1.4	6.1
Income tax expense	0.0	0.0	0.0	0.0	0.0
After-tax profit	-7.2	-8.5	-7.0	-1.4	6.1
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	-7.2	-8.5	-7.0	-1.4	6.1
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT post abnormal	-7.2	-8.5	-7.0	-1.4	6.1

Cash flow statement	FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA	-7.0	-8.5	-6.9	-1.3	6.3
Change in working capital	1.6	4.3	1.1	-0.5	-0.6
Net interest (pd)/rec	0.1	0.0	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)	-5.3	-4.2	-5.6	-1.6	5.7
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	-0.1	0.0	0.0	0.0
Cash flow from investing (3)	0.0	-0.1	0.0	0.0	0.0
Incr/(decr) in equity	7.5	5.0	6.2	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	-0.4	0.0	0.0	0.0
Cash flow from fin (5)	7.5	4.6	6.2	1.2	1.2
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	2.1	0.3	0.6	-0.4	7.0
Equity FCF (1+2+4)	-5.3	-4.2	-5.6	-1.6	5.7

Balance sheet	FY19A	FY20A	FY21F	FY22F	FY23F
Cash & deposits	5.4	5.8	6.2	5.6	12.3
Trade debtors	0.0	0.0	0.0	0.2	0.6
Inventory	0.0	0.0	0.0	0.3	0.7
Other current assets	1.0	0.9	0.9	0.9	0.9
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangible assets	1.8	1.9	1.6	1.3	1.1
Fixed assets	0.0	0.3	0.3	0.3	0.3
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	0.1	0.0	0.0	0.0	0.0
Total assets	8.3	8.9	9.0	8.6	15.8
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Trade payables	2.3	1.2	2.3	2.4	2.5
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other term liabilities	0.1	0.4	0.4	0.4	0.4
Other liabilities	0.0	0.3	0.3	0.3	0.3
Total liabilities	2.5	1.9	3.0	3.1	3.2
Share capital	29.3	35.9	42.2	43.4	44.7
Other reserves	7.2	1.8	1.8	1.8	1.8
Retained earnings	-30.7	-30.7	-38.0	-39.6	-33.8
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	5.8	7.0	6.0	5.6	12.7
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	5.8	7.0	6.0	5.6	12.7
Total liabilities & SE	8.3	8.9	9.0	8.6	15.8

Valuation metrics			
Share price (A\$)	\$0.059	Price Target (A\$)	\$0.13
DCF valuation inputs			
Rf	3.00%	10-year rate	3.00%
Rm-Rf	6.00%	Margin	2.0%
Beta	1.42	Kd	3.50%
CAPM (Rf+Beta(Rm-Rf))	11.5%	Ke	11.5%
Equity (E/EV)	100.0%	NPV cash flow (A\$m)	109.5
Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0
Interest rate	3.50%	Net debt (A\$m)	-5.8
Tax rate (t)	30.0%	Investments (A\$m)	0.0
WACC	11.5%	Equity market value (A\$m)	115.2
		Diluted no. of shares (m)	883.1
		DCF valuation	\$0.13

Multiples	FY19A	FY20A	FY21F	FY22F	FY23F
Enterprise value (A\$m)	57.6	57.9	58.3	57.7	64.4
EV/Sales (x)	na	59.5	291.4	9.6	4.7
EV/EBITDA (x)	-8.2	-6.8	-8.5	-45.5	10.3
EV/EBIT (x)	-7.9	-6.8	-8.2	-37.5	10.8
PE (x)	-5.6	-5.3	-7.4	-37.5	8.8
PEG x)	1.0	0.9	-0.3	-0.5	0.0

Per share data	FY19A	FY20A	FY21F	FY22F	FY23F
No. shares	659.0	735.1	768.1	883.1	898.1
EPS (cps)	-1.0	-1.1	-0.8	-0.2	0.7
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	FY19A	FY20A	FY21F	FY22F	FY23F
Sales growth	na	na	-79%	2900%	129%
Operating cost growth	-6%	35%	-26%	3%	3%
EBITDA growth	-9%	-21%	19%	82%	593%
EBITA growth	-10%	-17%	16%	79%	489%
EBIT growth	-10%	-17%	16%	79%	489%
NPAT growth	-11%	-18%	18%	80%	531%
Normalised EPS growth	-5%	-6%	28%	80%	524%

Operating performance	FY19A	FY20A	FY21F	FY22F	FY23F
Asset turnover (%)	0.0	2.8	0.6	17.0	28.1
EBITDA margin (%)	na	-875.7	-3437.7	-21.1	45.5
EBIT margin (%)	na	-875.7	-3572.2	-25.6	43.5
Net profit margin (%)	na	-875.7	-3514.5	-23.5	44.3
Return on net assets (%)	-105.6	-20.5	-90.2	-119.4	-126.8
Net debt (A\$m)	-5.4	-5.8	-6.2	-5.6	-12.3
Net debt/equity (%)	-93.0	-82.5	-103.1	-99.8	-97.1
Net interest/EBIT cover (x)		n/a			
Invested capital	2.0	5.6	1.0	-0.5	-0.3
ROIC (%)	-355.2	-153.5	-736.7	311.1	-2365.4

Internal liquidity	FY19A	FY20A	FY21F	FY22F	FY23F
Current ratio (x)	2.8	4.6	2.7	2.6	5.3
Receivables turnover (x)	0.0		48.7	47.1	33.9
Payables turnover (x)	4.6	5.5	4.0	3.1	3.1

SOURCE: MORGANS RESEARCH, COMPANY

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