

Australian Equity Research

18 April 2017

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BUY

unchanged

PRICE TARGET A\$0.55

unchanged

Price (18-Apr) A\$0.46

Ticker OSP-ASX

52-Week Range (A\$):	0.20 - 0.51
Avg Daily Vol (000s) :	162.4
Market Cap (A\$M):	119
Shares Out. (M) :	257.9
Enterprise Value (A\$M):	87.4
Last Cash Balance (US\$M):	21.9
Last Quarter Cash Burn (US\$M):	2.5

FYE Dec	2016A	2017E	2018E	2019E
Sales (US\$M)	0.6	2.2	6.0	12.1
PBT (US\$M)	(11.7)	(12.1)	(11.9)	(7.9)
Net Income (US\$M)	(11.7)	(12.1)	(11.9)	(7.9)
EPS (\$)	(12.0)	(4.7)	(4.6)	(3.1)
Cash Position (US\$M)	20.8	8.7	(3.2)	(11.1)



Priced as of close of business 18 April 2017

Canaccord Genuity (Australia) Limited received a fee as a Joint Lead Manager to the Osprey Medical Inc capital raising announced on 4 August 2016.

Company Update

Flying like an eagle

Investment Perspective

OSP has reported a strong start to its financial 2017, with DyeVert unit sales up 28% to 812 units, a second territory (Atlanta, GA) becoming profitable by selling more than 225 units, and a record number of units being trialed, providing a positive lead indicator for upcoming sales growth. The company expanded its sales force to 19 reps and intends to grow to 28 reps by the end of the year. With this expanded sales effort and the DyeVert Plus now approved and becoming available this quarter, we expect the company is well positioned to deliver strong sales growth throughout the year. The company closed the quarter with US\$18.2M and a net cash burn of US\$3.6M for the quarter. We maintain our BUY recommendation for OSP with a A\$0.55 price target which is based on a 12-year DCF (12.3% discount rate, no terminal value).

Key Points

Sales momentum building - reflecting a greater sales effort in terms of both reps and territories. This quarter, Atlanta, GA was the second territory to become cash flow positive, which it achieved in 12 months (vs 24 months for San Antonio). In addition to selling 812 units, an additional 210 units were trialed during the quarter. Given the high conversion rate of customers, this provides a positive lead indicator for expected sales growth in the next couple of quarters. There are now 55 hospitals purchasing (vs 45 in Dec16-Q, up 22%) and 39 hospitals in the evaluation phase (vs 40 in Dec16-Q). Following its approval in March, OSP will commence selling DyeVert Plus during the Jun17-Q. DyeVert Plus combines the auto-pressure regulation of DyeVert with real time reporting of dye usage against calculated patient-specific thresholds, making it easier for hospitals to comply with current issued guidelines.

Reasons to be cheerful - The two numbers we find most encouraging in this report are the increase in unit sales in San Antonio, and the increase in the ASP from US\$350 to US\$355. OSP has reported that DyeVert sales increased by 78 units in San Antonio to 314 units (up 33%) on the same base of 16 hospitals. This provides a clear indication of increasing adoption from more surgeons using the product on more patients. On these numbers, the average usage per hospital increased from 14.8 units/qtr to 19.6 units/qtr, significantly increasing the potential market for DyeVert. While the increase in ASP is not large, we find it very encouraging given the current uncertainty of healthcare funding in the US under the Trump Administration. The real value in our view is not in the \$5 increase in ASP, but that price does not appear to be a barrier to sales in an environment where cost issues are top of mind for US healthcare facilities.

Will need additional cash to achieve profitability - While we are starting to see good sales momentum, we believe the current cash is unlikely to be sufficient for the company to become profitable and self funding. Although we expect to see a significant increase in sales revenue this year, it is likely to be matched by an increase in sales expense, particularly with the appointment of an additional nine reps during the year. Thus, with US\$18.6M in cash and its current burn of \$3.6M/qtr, we believe the company will need another injection of capital before it becomes profitable.

FINANCIAL STATEMENTS

Financial Performance

Year End	31 Dec	2015A	2016A	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Operating Revenue	US\$M	0.2	0.6	2.2	6.0	12.1	18.7	31.9	56.1	80.4	106.7
Interest Revenue	US\$M	0.1	0.0	0.6	1.4	2.6	4.0	5.7	7.4	9.3	11.2
Govt Grants	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	US\$M	0.2	0.6	2.8	7.4	14.7	22.7	37.6	63.6	89.7	117.9
Operating Expenses	US\$M	-12.4	-12.3	-14.9	-19.3	-22.6	-26.2	-31.2	-37.9	-44.7	-72.0
EBITDA	US\$M	-12.2	-11.7	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Depreciation & Amortisation	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of Intangibles	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	US\$M	-12.2	-11.7	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Interest Expense	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax Expense	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax	US\$M	-12.2	-11.7	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Per Share											
EPS	cps	-17.0	-12.0	-4.7	-4.6	-3.1	-1.3	2.5	10.0	17.4	17.8

Cash Flow

Year End	31 Dec	2015A	2016A	2017F	2018F	2019F	2020F	2021F	2022F	2022F	2022F
Receipts	US\$M	0.2	0.6	2.2	6.0	12.1	18.7	31.9	56.1	80.4	106.7
Suppliers & Employers	US\$M	-12.4	-11.1	-14.9	-19.3	-22.6	-26.2	-31.2	-37.9	-44.7	-72.0
Interest Received	US\$M	0.1	0.0	0.6	1.4	2.6	4.0	5.7	7.4	9.3	11.2
Tax Paid	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash From Operations	US\$M	-11.6	-10.5	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Cash From Investing	US\$M	7.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash From Financing	US\$M	11.9	21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Opening Cash Balance	US\$M	4.1	11.8	20.8	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5
Net Incr / (Decr) In Cash	US\$M	7.6	10.1	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Closing Cash Balance	US\$M	11.8	21.9	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5	108.4
Other cash assets	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total cash assets	US\$M	11.8	20.8	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5	108.4

Balance Sheet

Year End	31 Dec	2015A	2016A	2017F	2018F	2019F	2020F	2021F	2022F	2022F	2022F
Cash & Cash Equivalents	US\$M	11.8	21.9	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5	108.4
Current Assets	US\$M	12.2	22.3	9.0	-2.8	-10.7	-14.2	-7.8	17.9	62.8	108.7
Non-Current Assets	US\$M	0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL ASSETS	US\$M	12.6	23.0	9.4	-2.4	-10.3	-13.8	-7.4	18.2	63.2	109.1
Current Debt	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	US\$M	0.6	1.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.6
Non-Current Debt	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Non-Current Liabilities	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL LIABILITIES	US\$M	0.7	1.3	0.7	0.7	0.7	0.7	0.7	0.7	0.7	2.7
Equity	US\$M	64.8	86.5	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9
Accumulated Profits / (Losses)	US\$M	-53.2	-64.9	-78.1	-90.0	-97.9	-101.4	-95.0	-69.3	-24.3	21.5
TOTAL EQUITY	US\$M	11.6	21.6	8.7	-3.1	-11.0	-14.5	-8.1	17.6	62.5	108.4

Valuation

Risk Free Rate	4.6%	Forecast Period	years	12 years
Market Premium	5.5%	12-Month Price Target	\$	\$0.55
Beta	1.4	Current Price	\$	\$0.46
Discount Rate	12.3%	Return	%	20%

SOURCE: Company reports and Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: April 18, 2017, 01:58 ET

Date and time of production: April 18, 2017, 01:58 ET

Target Price / Valuation Methodology:

Osprey Medical Inc. - OSP

Price target is based on a 12-year discounted cash flow valuation using a 12.3% discount rate with no terminal value.

Risks to achieving Target Price / Valuation:

Osprey Medical Inc. - OSP

US pivotal trial fails to confirm clinical benefit from dye reduction, hospitals delay adoption until clinical trial data becomes available, FDA does not grant label extension with clinical claim.

Distribution of Ratings:

Global Stock Ratings (as of 04/18/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	569	60.40%	38.84%
Hold	273	28.98%	17.95%
Sell	30	3.18%	13.33%
Speculative Buy	70	7.43%	70.00%
	942*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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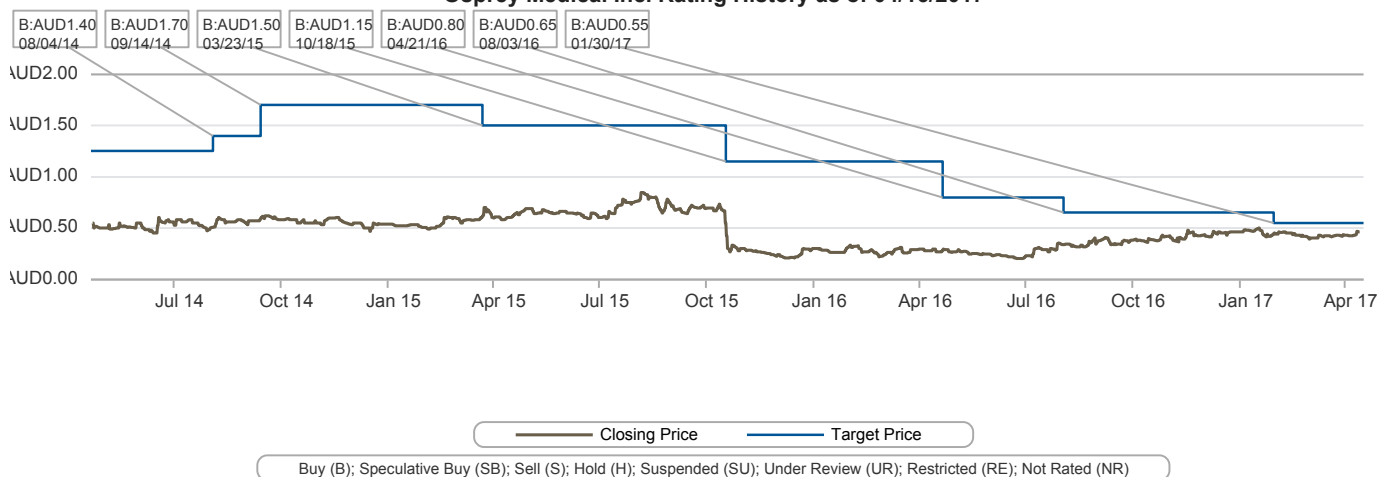
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