

Osprey Med Inc (OSP)

Rating: Buy | Risk: High | Price Target: \$0.70

Osprey Medical; The Next Nanosonics? Or is it Better?

Key Information

Current Price (\$ps)	0.42
12m Target Price (\$ps)	0.70
52 Week Range (\$ps)	0.20 - 0.50
Target Price Upside (%)	68.7%
TSR (%)	68.7%
Reporting Currency	USD
Market Cap (\$m)	107.0
Sector	Health Care
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

Fundamentals

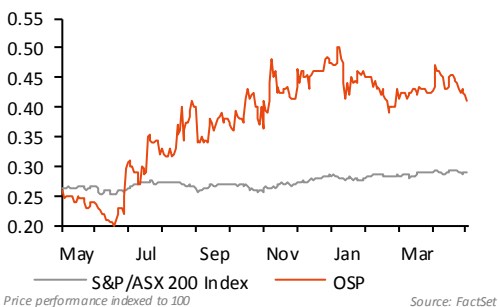
YE 30 Dec (USD)	FY16A	FY17E	FY18E	FY19E
Sales (\$m)	0.6	4.2	10.2	18.0
NPAT (\$m)	(11.7)	(13.9)	(9.1)	0.3
EPS (cps)	(4.6)	(5.4)	(3.5)	0.1
EPS Growth (%)	42.3%	(18.7%)	34.6%	103.7%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)				

Ratios

YE 30 Dec	FY16A	FY17E	FY18E	FY19E
P/E (x)	(7.3)	(5.7)	(8.7)	nm
EV/EBITDA (x)	(5.5)	(4.9)	(8.7)	208.5
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(10.8%)	(5.7%)	(10.5%)	47.2%
Absolute (%)	(11.7%)	(4.0%)	(7.8%)	56.6%
Benchmark (%)	(0.9%)	1.7%	2.7%	9.4%



Major Shareholders

Brandon Capital Partners	23.5%
Talu Ventures	13.2%
Kinetic Investment Management	9.8%

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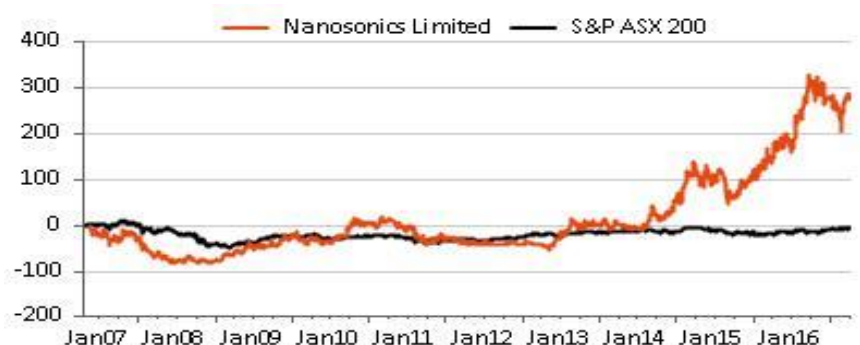
The similarities between OSPs current commercial position and where Nanosonics (NAN) was 5 years ago are strong and compelling. Since then NAN has continued to gain market acceptance across global markets, is cash flow positive and most significantly its share price has increased by a factor of 6x! We look at the similarities between OSP and NAN, and the possible implications for OSP over the next few years. Our OSP forecasts, TP (\$0.70) and BUY rating remain unchanged.

Highlights

- **Compelling similarities.** Both OSP and NAN are in the process of commercialising unique FDA approved medical devices. We estimate NAN is five years in front of OSP. Five years ago NANs share price, primarily in reaction to sales traction, began to rally from a capitalisation of \$131m; today it is capitalised at ~\$1bn. In Fig 1 we compare key metrics; OSP looks better! In Fig 2 we show NAN's share price performance.

Figure 1.	Nanosonics in 2012 (a)	Osprey in 2017 (f)	
Market Cap	A\$m	131	107
Cash	A\$m	29.3	21.9
Sales forecast FY1	A\$m	16.4	10.2
Quarters of positive traction	No.	6	10
FY2 sales growth	%	45%	75%
NPAT forecast FY1	\$m	-5.8	-9.1
Years to first positive cashflow	No.	3	2
US addressable mkt pa.	US\$bn	~0.5	1.1 to 1.4
Global mkt pa.	US\$bn	~1.8	2.2 to 2.8
Gross profit margin	%	~65%	~80%

Figure 2: Nanosonics took off when it demonstrated market acceptance



- **OSP is showing similar sales traction to what NAN experienced.** OSP has now reported 10 consecutive quarters of growth (units sold and samples) with 1Q17 delivering sales growth of 28%. OSP's original sales territory in San Antonio, Texas is now profitable, as is Atlanta, Georgia and a number of its later territories are growing quicker than San Antonio did. It is now putting additional sales reps on in new territories (19 going to 27 by the end of CY17). The quality of reps joining is also high, as it was with NAN (reps are not silly they know what they can sell!), which is another flag to investors.
- **Is OSP an even better opportunity?** OSPs addressable market is larger (the US alone is estimated at USD1.1 to USD1.4) and its gross margins at ~80% are higher than NANs.

Recommendation

Now is the time to BUY OSP. It has shown market acceptance, its risk profile is diminishing and its market capitalisation is yet to fully recover from its misunderstood trial data. But that is history, looking forward as OSP continues to demonstrate sales growth and move through profitability we expect its share price to push back towards our 12 month TP. BUY.

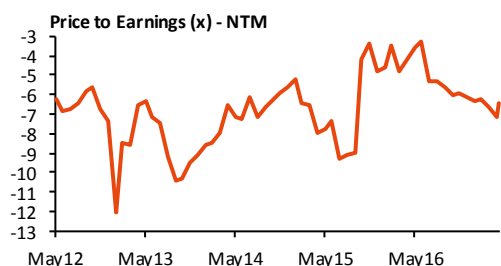
Osprey Med Inc
Health Care
Health Care Equipment & Services
FactSet: OSP-AU / Bloomberg: OSP AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.42
Target Price (\$ps)	0.70
52 Week Range (\$ps)	0.20 - 0.50
Shares on Issue (m)	257.7
Market Cap (\$m)	107.0
Enterprise Value (\$m)	97.0
TSR (%)	68.7%

Valuation NPV	Data
Beta	1.60
Cost of Equity (%)	14.9%
Cost of Debt (net) (%)	5.5%
Risk Free Rate (%)	5.3%
WACC (%)	14.9%

Company Description

Osprey Medical, Inc. focuses on the development and commercialization of its proprietary products for the prevention of Contrast Induced Nephropathy (CIN). The company's Medical product, the AVERT System, is designed to reduce the amount of dye (contrast) injected into patients during standard cardiovascular procedures. Contrast Induced Nephropathy (CIN) is a form of kidney damage caused by the toxic effects of dyes used by cardiologists to x-ray the heart and blood vessels during commonly performed heart procedures such as angioplasty and stenting. Reducing the amount of dye injected may be beneficial to patients with pre-existing chronic kidney disease as it is designed to protect them from additional kidney damage known as Contrast Induced Nephropathy (CIN). Dye is routinely used to x-ray the heart during angioplasty and stenting procedures. Osprey Medical was founded by Frank Solomon and James Edward Shapland on August 31, 2005 and is headquartered in Eden Prairie, MN.



— Osprey Med Inc

Source: Shaw Research

Financial Year End: 30 December

Investment Summary (USD)	FY15A	FY16A	FY17E	FY18E	FY19E
EPS (Reported) (cps)	(7.9)	(4.6)	(5.4)	(3.5)	0.1
EPS (Underlying) (cps)	(7.9)	(4.6)	(5.4)	(3.5)	0.1
EPS (Underlying) Growth (%)	(18.6%)	42.3%	(18.7%)	34.6%	103.7%
PE (Underlying) (x)	(2.7)	(7.3)	(5.7)	(8.7)	nm
EV / EBIT (x)	(1.7)	(5.5)	(4.9)	(8.7)	208.5
EV / EBITDA (x)	(1.7)	(5.5)	(4.9)	(8.7)	208.5
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)					
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Profit and Loss (USD) (m)	FY15A	FY16A	FY17E	FY18E	FY19E
Sales	0.2	0.6	4.2	10.2	18.0
Sales Growth (%)	2,142.1%	238.1%	617.8%	142.9%	76.5%
Other Operating Income	0.0	0.0	0.0	0.0	0.0
EBITDA	(12.2)	(11.7)	(14.5)	(9.4)	0.4
EBITDA Margin (%)	nm	nm	nm	(92.2%)	2.2%
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(12.2)	(11.7)	(14.5)	(9.4)	0.4
EBIT Margin (%)	nm	nm	nm	(92.2%)	2.2%
Net Interest	0.1	0.0	0.6	0.3	(0.1)
Pretax Profit	(12.2)	(11.7)	(13.9)	(9.1)	0.3
Tax	0.0	0.0	0.0	0.0	0.0
Tax Rate (%)	(0.0%)	(0.0%)	0.0%	0.0%	0.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	(12.2)	(11.7)	(13.9)	(9.1)	0.3
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(12.2)	(11.7)	(13.9)	(9.1)	0.3
Cashflow (USD) (m)	FY15A	FY16A	FY17E	FY18E	FY19E
EBIT	(12.2)	(11.7)	(14.5)	(9.4)	0.4
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	0.0	0.0	0.6	0.3	(0.1)
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Other	0.7	1.2	(0.3)	(1.0)	(1.3)
Operating Cashflow	(11.6)	(10.5)	(14.3)	(10.1)	(1.0)
Capex	(0.1)	(0.4)	0.0	0.0	0.0
Acquisitions and Investments	(0.6)	0.0	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	7.7	0.0	0.0	0.0	0.0
Other	0.3	0.0	0.0	0.0	0.0
Investing Cashflow	7.3	(0.4)	0.0	0.0	0.0
Equity Raised / Bought Back	11.9	21.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cashflow	11.9	21.0	0.0	0.0	0.0
Net Change in Cash	7.6	10.1	(14.3)	(10.2)	(1.1)
Balance Sheet (USD) (m)	FY15A	FY16A	FY17E	FY18E	FY19E
Cash	11.8	21.9	7.6	(2.6)	(3.6)
Accounts Receivable	0.0	0.1	0.7	1.7	3.0
Inventory	0.3	0.3	0.3	0.3	0.3
Other Current Assets	0.1	0.1	0.1	0.1	0.1
PPE	0.3	0.5	0.4	0.5	0.5
Goodwill & Intangibles	0.1	0.1	0.1	0.1	0.1
Investments	0.0	0.0	0.0	0.0	0.0
Total Assets	12.6	23.0	9.1	0.0	0.3
Accounts Payable	0.3	0.4	0.6	0.6	0.5
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Income Taxes Payable	0.0	0.0	0.0	0.0	0.0
Other	0.7	0.9	0.9	0.9	0.9
Total Liabilities	1.0	1.3	1.5	1.5	1.4
Total Shareholder Equity	11.6	21.6	7.7	(1.4)	(1.1)
Ratios	FY15A	FY16A	FY17E	FY18E	FY19E
ROE (%)	(106.9%)	(70.5%)	(95.0%)	(290.7%)	(26.8%)

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Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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