BELL POTTER

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Speculative
Refer to key risks on page 4 and Biotechnology Risk Warning on page 6. Speculative securities may not be suitable for retail clients.

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Osprey Medical (OSP)

Dose Sales Accelerate

Recommendation
Buy (unchanged)
Price
$0.25
Valuation
$0.53 (previously $0.52)
Risk
Speculative

GICS Sector

Healthcare Equipment and Services

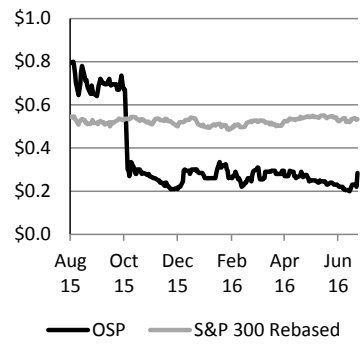
Expected Return	
Capital growth	**112%**
Dividend yield	**0.0%**
Total expected return	**112%**

Company Data & Ratios	
Enterprise value	**$30.5m**
Market cap	**$38.5m**
Issued capital	**154.2m**
Free float	**100%**
Avg. daily val. (52wk)	**$63,000**
12 month price range	**$0.19 - $0.85**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.23	0.30	0.63
Absolute (%)	23.91	-3.39	-54.76
Rel market (%)	25.56	-8.06	-49.58

Absolute Price



SOURCE: IRESS

June quarter dose sales grew strongly

Osprey Medical has today reported 45% sequential quarter unit sales growth for 2Q16. Average Selling Price was maintained at US$355 per unit. This is in line with our revenue expectation and follows 53% growth in the 1Q16. We estimate the company sold 540 units in 1H16 relative to our full year forecast of 1,800 unit sales.

Osprey piloted its commercialisation efforts in San Antonio, Texas starting in early 2015. This territory passed an important milestone last month when it achieved profitability for the first time by exceeding the breakeven point of 75 units. The single sales rep in the territory achieved 100 unit sales across the 15 hospitals. Unit sales have continued to grow in each quarter and based on the run rate achieved in June together with the ongoing growth, we remain confident the company will meet the revenue forecast for 2016.

Earlier in the quarter Osprey released important subgroup analysis from the AVERT clinical trial which appears to have contributed to the unit sales growth achieved this quarter. The sub group analysis showed up to a 49.5% reduction in the occurrence of contrast induced nephropathy (CIN) in patients with stage 3 kidney disease.

For hospitals and physicians at risk of penalty for above average rates of CIN events the evidence from this large randomised clinical trial is compelling. The results from the sub group where presented at a major interventional cardiology conference in May 2016 and this coincided with the expansion of the sales force to 8 territories.

For these two key reasons we expect a rapid expansion in the number of samples provided to new hospitals during 3Q16. The conversion rate of hospitals upgrading from samples to initial product orders is approximately 85%.

Maintain Buy Rating, Valuation Raised to $0.53

There are no changes to earnings. DCF valuation is raised from $0.52 to $0.53. We maintain our Buy rating.

Earnings Forecast

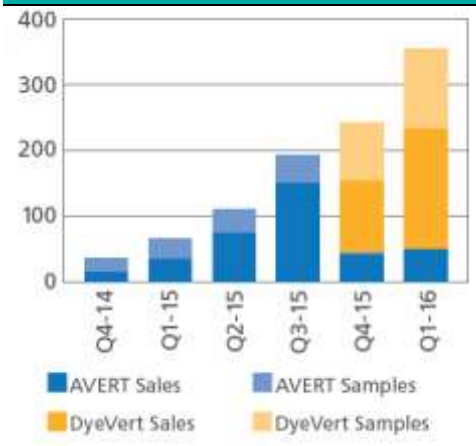
December Year End US$m	FY15	FY16e	FY17e	FY18e
Revenues	0.2	0.6	4.2	13.3
EBITDA $m	-12.2	-10.6	-10.4	-6.1
NPAT (underlying) $m	-12.2	-10.2	-10.0	-5.7
NPAT (reported) $m	-12.2	-10.2	-10.0	-5.7
EPS underlying (cps)	-8.3	-4.3	-4.2	-2.4
EPS growth %	19%	-49%	-2%	-43%
PER (x)	-3.0	-5.8	-5.9	-10.5
FCF yield (%)	-30%	-17%	-18%	-10%
EV/EBITDA (x)	-2.5	-2.9	-2.9	-5.0
Dividend (cps)	-	-	-	-
Franking	0%	0%	0%	0%
Yield %	0.0%	0.0%	0.0%	0.0%
ROE %	0.0%	-49.9%	-91.7%	-107.5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Still Early Days For Revenue Growth

The company has recently provided the following analysis of unit sales:

Figure 1 - Units sales data



SOURCE: COMPANY DATA

Based on this chart and some assumptions around today's update, we estimate Osprey had generated 540 unit sales in the six months ended 30 June 2016. The expanded sales force of 8 (current) and growing to 20 by year end should comfortably see the company meet our target of 1,800 unit sales by calendar year end.

NEXT CATALYSTS

- The company is trialling a next generation DyeVert System. The release data has not yet been announced, however could reasonably be expected to be later this year.
- The Society for Cardiovascular Angiography and Interventions (SCAI) recently updated Guidelines for best practice in the cardiac catheterisation lab to heighten focus on:
    1. Real time monitoring of contrast use, using as little contrast as possible; and
    2. Cath lab staff must inform physicians when predetermined limits are reached (based on patient work up prior to procedure).

The DyeVert System is the only system indicated to meet these requirements. We expect the next generation of DyeVert will include enhanced monitoring and recording features that will further enhance benefits to hospital and patients.

We expect the expanded sales force to continue to drive traction in the market based on the following clinical evidence recently presented at major interventional cardiology conferences.

Figure 2 - Post hoc analysis of CIN using serum creatinine change >0.5mg/dl

Study Group	Patient numbers	Mean Reduction in CIN for AVERT vs control group
All patients	470	20.5%
Diagnostic (angiograpghy)	268	28.5%
PCI/Stenting	202	13.6%
Patients with stage 3 kidney disease	264	49.5%

SOURCE: COMPANY DATA

Across all patients, the Avert group experienced a 20.5% reduction in CIN events. In patients with moderate stage chronic kidney disease, there were 264 patients across the

control group and AVERT group. The mean reduction in CIN events was 49.5% in the AVERT group vs the control group (p=.02).

The sub group analysis also included the following evidence concerning dye savings:

Figure 3 - Initial sub group analysis - AVERT v control

	Dye Savings
Angiogram only - no further intervetion	**8%**
All PCI	**23%**
PCI - 1 blockage	**15%**
PCI - 2 blockages	**31%**
PCI - 3 or more blockages	**46%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The analysis shows that in the most serious cases involving more than one cardiac arterial blockage, the dye savings were far greater than where no intervention was required (i.e. angiogram only). **In cases involving 3 or more blockages, the dye saving when using Avert was 46% compared to the control group.**

About Osprey Medical

Osprey Medical is a US based company focused on the development and commercialisation of its proprietary DyeVert System. DyeVert aims to reduce the level of contrast used in certain diagnostic procedures involving the heart. Contrast Induced Nephropathy (CIN) is a serious medical condition related to kidney failure and is a side effect following use of contrast (dye) in angioplasty/cardiac stenting procedures.

Approximately 25% of patients undergoing angioplasty or cardiac stenting are at high risk of a CIN event due to their pre-existing kidney disease.

It is estimated there are up to 1.6m procedures (amongst high risk patients) conducted in the US each year that may benefit from the use of this technology. The DyeVert system has multiple measures aimed at minimising the volume of dye used, which should help reduce the number of CIN events in at risk patients.

Extensive clinical trials have now been completed in Australia, Europe and the US resulting in regulatory approvals in each of these jurisdictions.

In the US Osprey has its own dedicated sales force and does not use distributors and neither does the sales force sell any other products. It commenced marketing of the predecessor to DyeVert in 2014 with a single sales rep in Texas. Since then, it has recorded seven consecutive quarters of growth in units sold and sampled. We expect this trend will continue as the company intends to expand the number of sales reps over the remainder of 2016 from the current seven to twenty. In addition the company has added clinical specialists to assist the interventional cardiologist and nursing staff in their initial use of the system and training as required.

The conversion rate of hospitals upgrading from DyeVert samples to initial product orders remains high at approximately 85%. As the volume of samples expands, it is logical to assume commercial orders will follow.

There are four key drivers for physicians and hospitals to adopt the technology:

- Clinical trials proved there is up to 46% reduction in dye usage when the system is used as compared to when not used. The saving is highest in patients requiring multiple stents. Key opinion leaders in the US consistently advocate using less dye in order to reduce the risk of CIN events;
- Sub group analysis from the Avert trial showed a 49.5% reduction in the rate of CIN events in patients with grade 3 chronic kidney disease;
- Patients suffering a CIN event normally require additional hospitalisation for up to four days at a cost of up to $10K per day to hospitals with little or no incremental payer reimbursement; and
- Medicare/Medicaid payments to hospitals are at risk if the rate of unplanned readmission for Medicare patients exceeds the national average. Targeted re-admission includes heart failure and heart attack. Any patient admitted with chest pain is likely to meet this criteria. The penalties are severe and include a 3% revenue penalty on ALL Medicare payments to the effected hospital.

The company has invested approximately US$50m in the development of the technology to this point where it is now approved in major markets and generating revenues in the US. The company expects to commence a roll out in Europe in 2017. We expect the company will become breakeven by FY19 when revenues are expected to exceed US$20m.

Osprey Medical
as at 7 July 2016

Recommendation	Buy, Speculative
Price	$0.25
Valuation	$0.53

Table 1 - Financial summary

Profit & Loss (US$m)	FY15	FY16e	FY17e	FY18e	FY19e
Year Ending December					
Device unit sales	430.0	1,800	12,000	39,000	84,000
Net revenue from product sales	0.2	0.6	4.2	13.3	27.2
COGS	-0.4	-0.3	-0.8	-2.7	-5.4
Gross profit	-0.2	0.3	3.4	10.6	21.7
GP margin	0%	50%	80%	80%	80%
R&D incentive/Upfront receipts	-	-	-	-	-
Total revenues	**0.2**	**0.6**	**4.2**	**13.3**	**27.2**
Other expenses	**-12.0**	**-10.9**	**-13.8**	**-16.7**	**-18.9**
EBITDA	**-12.2**	**-10.6**	**-10.4**	**-6.1**	**2.8**
D&A	0.0	-0.1	-0.1	-0.1	-0.1
EBIT	-12.2	-10.7	-10.5	-6.2	2.7
Sundry income	0.1	0.5	0.5	0.5	0.5
Pre tax profit	-12.2	-10.2	-10.0	-5.7	3.2
Tax expense	-	-	-	-	-
NPAT- normalised	-12.2	-10.2	-10.0	-5.7	3.2
Net abnormal items	-	-	-	-	-
Reported NPAT	-12.2	-10.2	-10.0	-5.7	3.2

Cashflow (US$m)	FY15	FY16e	FY17e	FY18e	FY19e
Gross cashflow	-11.6	-10.6	-10.8	-6.1	3.4
Net interest	0.3	0.5	0.5	0.5	0.5
Tax paid	0.0	0.0	0.0	0.0	0.0
Operating cash flow	-11.4	-10.1	-10.3	-5.6	3.9
Maintenance capex	-0.1	-0.2	-0.2	-0.2	-0.2
Capitalised clinical trial spend	0.0	0.0	0.0	0.0	0.0
Free cash flow	-11.5	-10.3	-10.5	-5.8	3.7
Business acquistions	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance	11.9	20.0	0.0	0.0	0.0
Movement in investments	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Change in cash held	0.4	9.7	(10.5)	(5.8)	3.7
Cash at beginning of period	11.3	11.8	21.4	10.9	5.2
Cash at year end	11.8	21.4	10.9	5.2	8.9

Balance Sheet (US$m)					
Cash	11.8	21.4	10.9	5.2	8.9
Receivables	-	0.1	0.5	1.7	3.4
Short term investments	0.3	0.3	0.3	0.3	0.4
Other current assets	0.1	0.1	0.1	0.1	0.1
Property, Plant and Equipment	0.3	0.4	0.5	0.6	0.7
Intangible assets	0.1	0.1	0.1	0.1	0.1
Total assets	12.6	22.4	12.5	8.0	13.5
Trade payables /accruals	1.0	1.0	1.1	2.2	4.5
Other liabilities	-	-	-	-	-
Debt - interest bearing debt	-	-	-	-	-
Total Liabilities	1.0	1.0	1.1	2.2	4.5
Net Assets	11.6	21.4	11.4	5.8	9.0
Share capital	64.8	84.8	84.8	84.8	84.8
Retained earnings	(53.2)	(63.4)	(73.4)	(79.1)	(75.9)
Reserves	-	-	-	-	-
Shareholders Equity	11.6	21.4	11.4	5.8	9.0

Last sale 07/07/2016	0.25
Recommendation	Buy (Spec)
Issued Capital	154.2
Market Cap	38.5

Valuation Ratios (US$m)	FY15	FY16e	FY17e	FY18e	FY19e
Reported EPS (cps)	-8.3	-4.3	-4.2	-2.4	1.4
Normalised EPS (cps)	-8.3	-4.3	-4.2	-2.4	1.4
EPS growth (%)					
PE(x)	**-3.0**	**-5.8**	**-5.9**	**-10.5**	**18.4**
EV/EBITDA (x)	-2.5	-2.9	-2.9	-5.0	10.8
EV/EBIT (x)	-2.5	-2.9	-2.9	-4.9	11.2
NTA (cps)	7.4	9.0	4.8	2.4	3.7
P/NTA (x)	3.4	2.8	5.3	10.6	6.7
Book Value (cps)	7.5	9.0	4.8	2.4	3.8
Price/Book (x)	3.3	2.8	5.2	10.3	6.6
DPS (cps)	-	-	-	-	-
Payout ratio %	0%	0%	0%	0%	0%
Dividend Yield %	0.0%	0.0%	0.0%	0.0%	0.0%
Franking %	0%	0%	0%	0%	0%
FCF yield %	-30%	-17%	-18%	-10%	6%
Net debt/Equity	0%	0%	0%	0%	0%
Net debt/Assets	0%	0%	0%	0%	0%
Gearing	0%	net cash	net cash	net cash	net cash
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Interest cover (x)	n/a	n/a	n/a	n/a	n/a

Unit sales	FY16e	FY17e	FY18e	FY19e
Europe	-	-	3,000	18,000
USA	1,800	12,000	36,000	66,000
Australia/Asia Pacific	-	-	-	-
Total unit sales	**1,800**	**12,000**	**39,000**	**84,000**
Average revenue per sale A$'000	-	350	340	323

Half Year Earnings Split	1H16e	2H16e
Unit sales	571	1,229
Revenues	0.2	0.4
EBIT	-6.0	-4.7
NPAT	-5.9	-4.3

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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