

Australian Equity Research

21 April 2016

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BUY

unchanged

PRICE TARGET A\$0.80↓

from A\$1.15

Price (21-Apr) A\$0.28

Ticker OSP-ASX

52-Week Range (A\$):	0.19 - 0.85
Avg Daily Vol (000s) :	168.8
Market Cap (A\$M):	43.2
Shares Out. (M) :	154.2
Enterprise Value (A\$M):	30.7
Last Cash Balance (US\$):	8.8
Last Quarter Cash Burn (US \$M):	3.0

FYE Dec	2015A	2016E	2017E	2018E
Sales (US\$M)	0.2	1.0↓	5.6↓	11.3↓
Previous	0.2	2.7	8.8	18.6
PBT (US\$M)	(12.2)	(12.6)↓	(9.5)↓	(7.6)↓
Previous	(12.2)	(11.2)	(6.9)	(2.1)
Net Income (US\$M)	(12.2)	(12.6)↓	(9.5)↓	(7.6)↓
Previous	(12.2)	(11.2)	(6.9)	(2.1)
EPS (¢)	(7.9)	(8.2)↓	(6.1)↓	(4.9)↓
Previous	(7.9)	(7.3)	(4.5)	(1.4)
Cash Position (US\$M)	11.1	(1.4)	(10.8)	(18.3)
Previous	11.1	(0.1)	(6.9)	(9.0)



Source: FactSet

Lowering Target Price

Live And Let Dye

Investment Thesis

OSP has reported sales revenue of US\$87K for the Mar-Q. While the company has expanded its sales team to 7 reps (previously 2), these reps only started at the beginning of the year. As it is currently taking an average of 4 months for accounts to progress from product trial, through appraisal by each hospital's Value Assessment Committee (VAC), to initial orders, we estimate the revenue contribution from the new sales personnel this quarter has been minimal. What we find encouraging is that, with the new DyeVert product, the conversion rate from trialling to purchase is around 85%. With 121 units trialled during the Mar-Q and new accounts completing the appraisal and approval process, we should see material growth in revenue over the coming quarters. However, we have revised down our sales forecast numbers to better reflect the time it's taking to get the initial accounts on board. As a result, we maintain our BUY recommendation for OSP but have reduced our price target, which is based on a 12yr DCF (12.3% discount rate, no terminal value), to \$0.80 per share (previously \$1.15).

Key Points

Commercial launch just starting - we believe it is too early in the commercial launch process to be able to read much into the Mar-Q's reported revenue. While the sales team has expanded from 2 reps to 7 reps, it takes an average of 4mths to convert a hospital from trial to initial purchase. We believe the impact of the expanded sales effort has yet to be seen in the current revenue numbers. What is encouraging is that 121 units were trialled during the quarter, and the conversion rate from trial to purchase is tracking at around 85%. If we assume each site uses 5-10 units during a trial, this could represent 10-20 new accounts with a high likelihood of converting to purchases during the Jun-Q.

DyeVert uptake has been a positive - and most likely responsible both for the increase in hospitals trialling the device and converting to purchases. Unlike AVERT, DyeVert is a standalone unit and does not require separate hardware to regulate the pressure or adjustment for different dyes or catheters. Furthermore, trials have shown that DyeVert reduces dye use by 35-45% which is a 5%-10% greater reduction than AVERT typically provides. At this stage, DyeVert does not record and report dye usage and savings, but the company is looking to incorporate these features from AVERT Plus to the DyeVert system later in the year.

Revised sales forecast - we have revised down our sales forecast numbers to reflect the time to progress accounts from trial to purchase and for the timing of sales force expansion. The company is planning to add 13 new reps by the end of 2016, but at its current cash burn rate, we estimate that OSP only has around three quarters of cash in the bank. In view of this, we believe that significant expansion of the sales force will only occur once the company has secured access to additional capital. As a result, we have reduced our near term sales forecast numbers, resulting in a revised valuation and price target for OSP of \$0.80 per share (previously \$1.15).

FINANCIAL STATEMENTS

Financial Performance

Year End	31 Dec	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Operating Revenue	US\$M	0.0	0.0	0.2	1.0	5.6	11.3	22.7	40.2	64.0	92.9	123.9	140.5
Interest Revenue	US\$M	0.0	0.0	0.1	0.2	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	0.0	0.0
Total Revenue	US\$M	0.0	0.0	0.3	1.2	6.2	12.8	25.2	44.2	69.6	100.3	133.2	151.6
Operating Expenses	US\$M	-8.5	-9.7	-12.4	-13.7	-15.5	-20.3	-26.0	-33.1	-43.2	-51.2	-60.2	-70.9
EBITDA	US\$M	-8.5	-9.6	-12.1	-12.5	-9.4	-7.5	-0.8	11.1	26.4	49.2	73.0	80.8
Depreciation & Amortisation	US\$M	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
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	0.0	0.0
EBIT	US\$M	-8.6	-9.7	-12.2	-12.6	-9.5	-7.6	-0.9	11.0	26.4	49.1	72.9	80.7
Interest Expense	US\$M	0.0	0.0	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	-13.0	-22.4
Profit After Tax	US\$M	-8.6	-9.7	-12.2	-12.6	-9.5	-7.6	-0.9	11.0	26.4	49.1	59.9	58.3
Per Share													
EPS	cps	-7.1	-7.9	-7.9	-8.2	-6.1	-4.9	-0.6	7.2	17.1	31.8	38.8	37.8
Cash Backing	cps	16.9	9.2	7.2	-0.9	-7.0	-11.9	-12.4	-5.1	12.0	43.9	82.8	120.6

Cash Flow

Year End	31 Dec	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Receipts	US\$M	0.0	0.0	0.2	1.0	5.6	11.3	22.7	40.2	64.0	92.9	123.9	140.5
Suppliers & Employers	US\$M	-7.4	-8.9	-12.4	-13.7	-15.5	-20.3	-26.0	-33.1	-43.2	-51.2	-60.2	-70.9
Interest Received	US\$M	0.0	0.0	0.1	0.2	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	-13.0	-22.4
Cash From Operations	US\$M	-7.4	-8.9	-12.1	-12.5	-9.4	-7.5	-0.8	11.1	26.4	49.2	59.9	58.4
Cash From Investing	US\$M	-7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash From Financing	US\$M	12.9	0.0	11.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Opening Cash Balance	US\$M	15.2	13.0	4.1	3.9	-8.6	-18.0	-25.5	-26.2	-15.1	11.4	60.5	120.5
Net Incr / (Decr) In Cash	US\$M	-2.2	-8.8	-0.2	-12.5	-9.4	-7.5	-0.8	11.1	26.4	49.2	59.9	58.4
Closing Cash Balance	US\$M	13.0	4.1	3.9	-8.6	-18.0	-25.5	-26.2	-15.1	11.4	60.5	120.5	178.8
Other cash assets	US\$M	7.4	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Total cash assets	US\$M	20.4	11.3	11.1	-1.4	-10.8	-18.3	-19.0	-7.9	18.5	67.7	127.6	186.0

Balance Sheet

Year End	31 Dec	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Cash & Cash Equivalents	US\$M	16.2	4.1	3.9	-8.6	-18.0	-25.5	-26.2	-15.1	11.4	60.5	120.5	178.8
Current Assets	US\$M	16.9	11.9	4.2	-8.3	-17.6	-25.1	-25.9	-14.8	11.7	60.8	120.8	179.1
Non-Current Assets	US\$M	4.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL ASSETS	US\$M	21.3	12.3	4.6	-7.9	-17.2	-24.7	-25.5	-14.4	12.1	61.2	121.2	179.5
Current Debt	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	US\$M	1.2	0.6	0.6	0.6	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	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	0.0	0.0
TOTAL LIABILITIES	US\$M	1.2	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	2.7
Equity	US\$M	51.3	52.1	57.2	57.3	57.4	57.5	57.6	57.7	57.7	57.8	57.9	58.0
Accumulated Profits / (Losses)	US\$M	-31.3	-41.0	-53.2	-65.8	-75.3	-82.9	-83.7	-72.7	-46.4	2.7	62.6	120.8
TOTAL EQUITY	US\$M	20.1	11.1	3.9	-8.6	-17.9	-25.4	-26.2	-15.1	11.4	60.6	120.5	178.9
Valuation													
Risk Free Rate	%			4.6%									
Market Premium	%			5.5%									
Beta	x			1.4									
Discount Rate	%			12.3%									
								Forecast Period		years			12 years
								12-Month Price Target		\$			\$0.80
								Current Price		\$			\$0.28
								Return		%			186%

SOURCE: Company reports and Canaccord Genuity estimates

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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.

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Rating	Coverage Universe		IB Clients
	#	%	%
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Hold	267	29.44%	16.85%
Sell	27	2.98%	3.70%
Speculative Buy	60	6.62%	63.33%
	907*	100.0%	

*Total includes stocks that are Under Review

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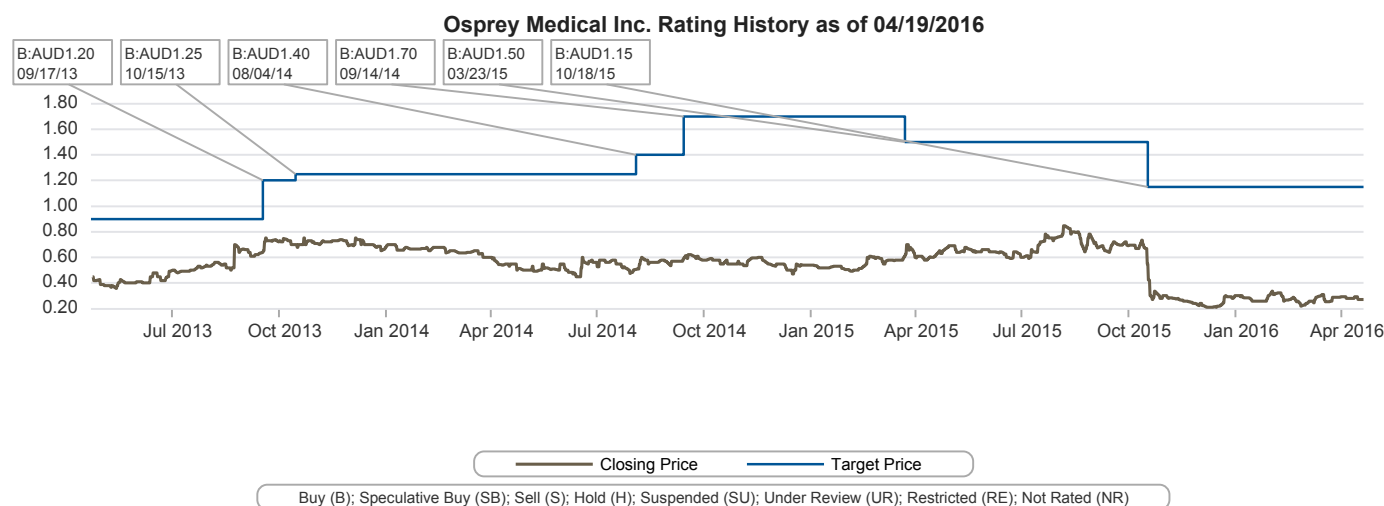
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