

Australian Equity Research

30 January 2017

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BUY

unchanged

PRICE TARGET A\$0.55↓

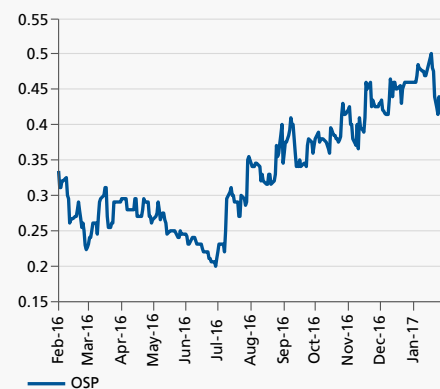
from A\$0.65

Price (31-Jan) A\$0.44

Ticker OSP-ASX

52-Week Range (A\$):	0.20 - 0.51
Avg Daily Vol (000s) :	148.8
Market Cap (A\$M):	113
Shares Out. (M) :	257.7
Enterprise Value (A\$M):	82.2
Last Cash Balance (US\$M):	21.9
Last Quarter Cash Burn (US\$M):	2.5

FYE Dec	2015A	2016E	2017E	2018E
Sales (US\$M)	0.2	0.6↓	2.2↓	6.0↓
Previous	-	0.7	5.4	11.3
PBT (US\$M)	(12.2)	(12.9)↓	(12.1)↓	(11.9)↓
Previous	-	(12.8)	(9.4)	(7.5)
Net Income (US\$M)	(12.2)	(12.9)↓	(12.1)↓	(11.9)↓
Previous	-	(12.8)	(9.4)	(7.5)
EPS (\$)	(4.7)	(5.0)	(4.7)↓	(4.6)↓
Previous	-	(5.0)	(3.7)	(2.9)
Cash Position (US\$M)	11.8	20.8	8.7	(3.2)
Previous	-	20.1	10.6	3.1



Source: FactSet

Priced as of close of business 31 January 2017

Lowering Target Price

The Eagle Is Landing

Canaccord Genuity (Australia) Limited received a fee as a Joint Lead Manager to the Osprey Medical Inc two-tranche placement of ~38.5 million CDI's at \$0.28 per CDI to raise A\$10.8 million in August 2016 and ~61.5 million CDI's at \$0.28 per CDI to raise A\$17.2 million in September 2016.

Investment Perspective

OSP has closed 2016 recording sales of 636 units of DyeVert (up 43% on the preceding quarter) and the number of hospitals using DyeVert up 22% to 45. Following its A\$28M capital raise in Q3 2016, OSP has expanded its sales force from 9 to 15 reps. While it typically takes around 4 months for new accounts to transition from trialing the product to commercial purchase, the first signs of the impact this additional sales push could have is evident in Q4's result. Furthermore, in OSP's most established market, San Antonio, we are starting to see stronger adoption with sales up 21% to 236 units from the same base of 16 hospitals. While we believe the current results are supporting the clear commercial need and potential for DyeVert, we have reduced our near-term sales forecasts to better match the growth rates seen over the last 4 quarters. Consequently, we have reduced our price target, which is based on a 12-year DCF (12.3% discount rate, no terminal value) to \$0.55 (previously (\$0.65) but maintain our BUY recommendation for OSP.

Key Points

Numbers show momentum is building - in its best quarter to date, OSP has booked the sale of 636 units of DyeVert, up 43% from the Sep-Q. There are now 45 hospitals purchasing DyeVert (up from 37 previous Q) with another 40 trialing the product or in the hospital purchasing approval process. While the number of hospitals using DyeVert in OSP's most mature market, San Antonio, has remained steady at 16, unit sales are up 21% to 236 indicating DyeVert is getting more broadly adopted at these sites. The company estimates the overall adoption in San Antonio is around 35%-40% (with some hospitals using it on all their CKD patients) suggesting the potential to significantly increase sales in this territory. OSP has secured this growth without compromising the average selling price (ASP) of \$350/unit. We believe that, with the approval and release of DyeVert Plus expected in the coming months, OSP should be able to maintain this ASP, at least for the near term.

Just the beginning - while DyeVert is a unique product with no direct competitors, OSP's experience in the market over the last 2 years indicates the average time to establish a new account is around 4 months. Part of this is due to the fact that DyeVert is unique and hence has to undergo a more thorough assessment and approval process than is required for new versions of existing product categories. Thus we expect the real impact of the 6 new sales reps that were appointed during the Dec-Q should start to be seen over the next 3 quarters. Furthermore, the company is planning to expand its sales force to 20 reps by the end of 2017. We would expect that once converted, commercial accounts will continue to purchase with only minimal maintenance support from the sales staff which should, over time, lead to a compounding of sales growth. However, for the near term, we have reduced our unit sales projections to better reflect the 25%-35% growth that has been seen over the last four quarters.

FINANCIAL STATEMENTS

Financial Performance

Year End	31 Dec	2015A	2016F	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	0.2	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
Total Revenue	US\$M	0.2	0.7	2.8	7.4	14.7	22.7	37.6	63.6	89.7	117.9
Operating Expenses	US\$M	-12.4	-13.7	-14.9	-19.3	-22.6	-26.2	-31.2	-37.9	-44.7	-72.0
EBITDA	US\$M	-12.2	-12.9	-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	-12.9	-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	-12.9	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9

Per Share

EPS	cps	-4.7	-5.0	-4.7	-4.6	-3.1	-1.3	2.5	10.0	17.5	17.8
Cash Backing	cps	4.6	8.1	3.4	-1.2	-4.3	-5.6	-3.2	6.8	24.2	42.0

Cash Flow

Year End	31 Dec	2015A	2016F	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	-13.7	-14.9	-19.3	-22.6	-26.2	-31.2	-37.9	-44.7	-72.0
Interest Received	US\$M	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
Cash From Operations	US\$M	-11.6	-12.9	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Cash From Investing	US\$M	7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash From Financing	US\$M	11.9	21.9	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	9.0	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Closing Cash Balance	US\$M	11.8	20.8	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	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2022F	2022F
Cash & Cash Equivalents	US\$M	11.8	20.8	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5	108.4
Current Assets	US\$M	12.2	21.1	9.0	-2.8	-10.7	-14.2	-7.8	17.9	62.8	108.7
Non-Current Assets	US\$M	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL ASSETS	US\$M	12.6	21.5	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	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	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	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	2.7
Equity	US\$M	64.8	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9
Accumulated Profits / (Losses)	US\$M	-53.2	-66.1	-78.1	-90.0	-97.9	-101.4	-95.0	-69.3	-24.3	21.5
TOTAL EQUITY	US\$M	11.6	20.8	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	\$	\$0.44
Discount Rate	12.3%	Return	%	25%

SOURCE: Company reports and Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: January 30, 2017, 22:39 ET

Date and time of production: January 30, 2017, 22:39 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 01/30/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	597	61.42%	37.02%
Hold	279	28.70%	16.85%
Sell	32	3.29%	21.88%
Speculative Buy	64	6.58%	70.31%
	972*	100.0%	

*Total includes stocks that are Under Review

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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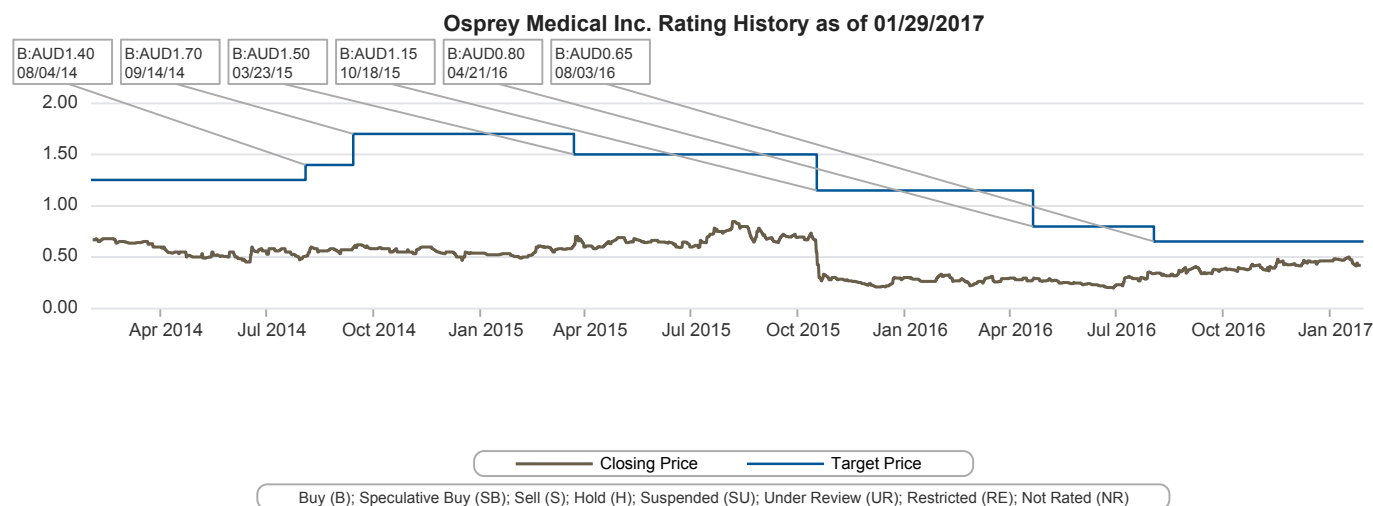
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