

## Australian Equity Research

5 June 2016

## BUY

unchanged

PRICE TARGET A\$0.80

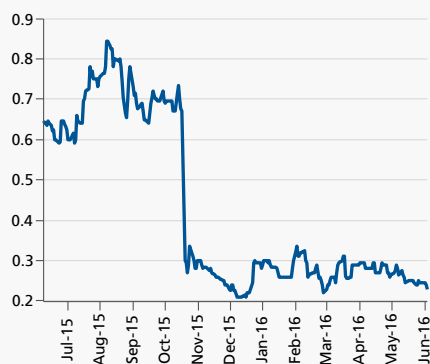
unchanged

Price (6-Jun) A\$0.24

Ticker OSP-ASX

52-Week Range (A\$):	0.19 - 0.85
Avg Daily Vol (000s) :	170.2
Market Cap (A\$M):	36.2
Shares Out. (M) :	154.2
Enterprise Value (A\$M):	23.7
Last Cash Balance (US\$M):	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
PBT (US\$M)	(12.2)	(12.6)	(9.5)	(7.6)
Net Income (US\$M)	(12.2)	(12.6)	(9.5)	(7.6)
EPS (\$)	(7.9)	(8.2)	(6.1)	(4.9)
Cash Position (US\$M)	11.1	(1.4)	(10.8)	(18.3)



OSP

Source: FactSet

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## Company Update

## Osprey starting to fly

## Investment Perspective

In today's Investor Newsletter, OSP has reported strong adoption of DyeVert in its initial market of San Antonio, with 57% of hospitals using the product on at least 39% of their chronic kidney disease (CKD) patients. The company also points to a strengthening of market fundamentals for DyeVert, with new guidelines requiring minimizing and monitoring dye usage in CKD patients, and the incidence of contrast-induced acute kidney injury (CI-AKI) becoming a key Quality Metric for hospitals. Since the announcement last year of its clinical trial data that failed to show a reduction in CI-AKI, the market has been pricing OSP as though the market for its dye-saving products is extremely limited. We believe the clinical demonstrations of significant dye savings, post-trial analysis of the clinical trial data, and now robust evidence of market adoption in its initial market shows that this clearly is not the case. In view of this, we ; reiterate BUY, A \$0.80 target which is based on a 12yr DCF (12.3% discount rate, no terminal value).

## Key Points

**Strong uptake in first market** - OSP has reported that 57% of hospitals (13/22) in San Antonio with another 4 hospitals currently trialing DyeVert. OSP estimates that AVERT/DyeVert has been used on 39% of procedures performed on CKD patients at these hospitals once they started using the products. We believe this is a conservative estimate of the potential utilization by these accounts as 5 of the hospitals only started using the product after November 2015 and there is typically a ramp up period before all doctors at a site start using it consistently.

**DyeVert shown to significantly reduce dye usage** - two clinical studies have demonstrated DyeVert consistently saves 45%-50% across both diagnostic and stenting procedures. The company is planning to launch the DyeVert Plus later this year which will include a bluetooth smart-syringe and the dye usage monitoring features that were available with Avert Plus. These features will become increasingly important in assisting hospitals to comply with new guidelines for the use of contrast dye in CKD patients.

**Guidelines focus on minimizing and monitoring dye usage** - new guidelines issued by the Society for Cardiac Angiography and Interventions (SCAI) have recommended that; 1) the amount of contrast dye given to CKD patients is minimized, 2) dye use is monitored in real time, and 3) doctors should be advised when predetermined dye limits for each patient have been reached during a procedure. To our knowledge, DyeVert/Avert Plus is the only product that makes it easy to comply with these guidelines.

**CI-AKI is becoming a key Quality Metric linked to hospital payments** - incidence of CI-AKI has become a key Quality Metric that is being tracked for each hospital by the National Cardiovascular Data Registry (NCDR). Under ObamaCare, these data are directly linked to each hospital's funding with penalties imposed for poorly performing hospitals. Furthermore, from 2019, these data will be used for payment adjustments at an individual doctor level. We believe that these represent strong fundamental drivers for the future adoption of DyeVert by both hospitals and cardiovascular doctors.

## 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
Gov't 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
<b>Total Revenue</b>	<b>US\$M</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>1.2</b>	<b>6.2</b>	<b>12.8</b>	<b>25.2</b>	<b>44.2</b>	<b>69.6</b>	<b>100.3</b>	<b>133.2</b>	<b>151.6</b>
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
<b>EBITDA</b>	<b>US\$M</b>	<b>-8.5</b>	<b>-9.6</b>	<b>-12.1</b>	<b>-12.5</b>	<b>-9.4</b>	<b>-7.5</b>	<b>-0.8</b>	<b>11.1</b>	<b>26.4</b>	<b>49.2</b>	<b>73.0</b>	<b>80.8</b>
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
<b>EBIT</b>	<b>US\$M</b>	<b>-8.6</b>	<b>-9.7</b>	<b>-12.2</b>	<b>-12.6</b>	<b>-9.5</b>	<b>-7.6</b>	<b>-0.9</b>	<b>11.0</b>	<b>26.4</b>	<b>49.1</b>	<b>72.9</b>	<b>80.7</b>
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
<b>Profit After Tax</b>	<b>US\$M</b>	<b>-8.6</b>	<b>-9.7</b>	<b>-12.2</b>	<b>-12.6</b>	<b>-9.5</b>	<b>-7.6</b>	<b>-0.9</b>	<b>11.0</b>	<b>26.4</b>	<b>49.1</b>	<b>59.9</b>	<b>58.3</b>
<b>Per Share</b>													
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
<b>Cash From Operations</b>	<b>US\$M</b>	<b>-7.4</b>	<b>-8.9</b>	<b>-12.1</b>	<b>-12.5</b>	<b>-9.4</b>	<b>-7.5</b>	<b>-0.8</b>	<b>11.1</b>	<b>26.4</b>	<b>49.2</b>	<b>59.9</b>	<b>58.4</b>
<b>Cash From Investing</b>	<b>US\$M</b>	<b>-7.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Cash From Financing</b>	<b>US\$M</b>	<b>12.9</b>	<b>0.0</b>	<b>11.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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
<b>Closing Cash Balance</b>	<b>US\$M</b>	<b>13.0</b>	<b>4.1</b>	<b>3.9</b>	<b>-8.6</b>	<b>-18.0</b>	<b>-25.5</b>	<b>-26.2</b>	<b>-15.1</b>	<b>11.4</b>	<b>60.5</b>	<b>120.5</b>	<b>178.8</b>
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
<b>Total cash assets</b>	<b>US\$M</b>	<b>20.4</b>	<b>11.3</b>	<b>11.1</b>	<b>-1.4</b>	<b>-10.8</b>	<b>-18.3</b>	<b>-19.0</b>	<b>-7.9</b>	<b>18.5</b>	<b>67.7</b>	<b>127.6</b>	<b>186.0</b>

## 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
<b>Current Assets</b>	<b>US\$M</b>	<b>16.9</b>	<b>11.9</b>	<b>4.2</b>	<b>-8.3</b>	<b>-17.6</b>	<b>-25.1</b>	<b>-25.9</b>	<b>-14.8</b>	<b>11.7</b>	<b>60.8</b>	<b>120.8</b>	<b>179.1</b>
<b>Non-Current Assets</b>	<b>US\$M</b>	<b>4.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
<b>TOTAL ASSETS</b>	<b>US\$M</b>	<b>21.3</b>	<b>12.3</b>	<b>4.6</b>	<b>-7.9</b>	<b>-17.2</b>	<b>-24.7</b>	<b>-25.5</b>	<b>-14.4</b>	<b>12.1</b>	<b>61.2</b>	<b>121.2</b>	<b>179.5</b>
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
<b>Current Liabilities</b>	<b>US\$M</b>	<b>1.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>1.6</b>
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
<b>Non-Current Liabilities</b>	<b>US\$M</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL LIABILITIES</b>	<b>US\$M</b>	<b>1.2</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>2.7</b>
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
<b>TOTAL EQUITY</b>	<b>US\$M</b>	<b>20.1</b>	<b>11.1</b>	<b>3.9</b>	<b>-8.6</b>	<b>-17.9</b>	<b>-25.4</b>	<b>-26.2</b>	<b>-15.1</b>	<b>11.4</b>	<b>60.6</b>	<b>120.5</b>	<b>178.9</b>

## Valuation

Risk Free Rate	%	4.6%	Forecast Period	years	12 years
Market Premium	%	5.5%	12-Month Price Target	\$	\$0.80
Beta	x	1.4	Current Price	\$	\$0.24
Discount Rate	%	12.3%	Return	%	240%

SOURCE: Company reports and Canaccord Genuity estimates

## Appendix: Important Disclosures

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### 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 06/05/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	519	58.98%	34.68%
Hold	276	31.36%	17.75%
Sell	27	3.07%	3.70%
Speculative Buy	58	6.59%	65.52%
	880*	100.0%	

\*Total includes stocks that are Under Review

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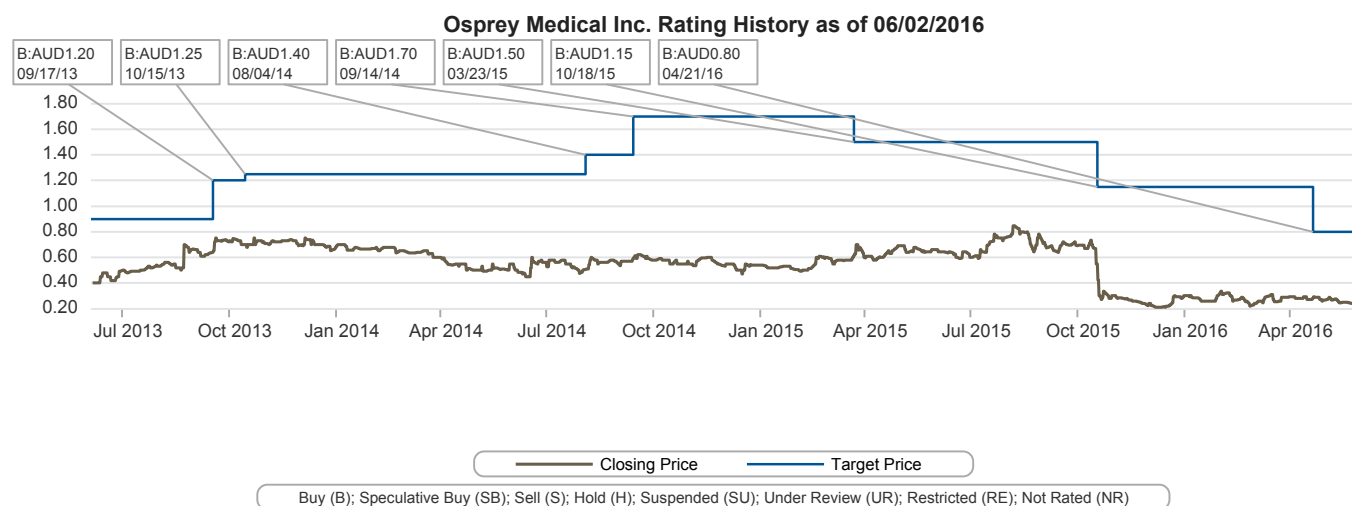
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