

# Osprey Med Inc (OSP)

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

## Sales Traction, Profitable Regions & Team Expansion Flag OSP is Realising its Opportunity

### Key Information

Current Price (\$ps)	0.43
12m Target Price (\$ps)	0.70
52 Week Range (\$ps)	0.20 - 0.50
Target Price Upside (%)	64.7%
TSR (%)	64.7%
Reporting Currency	USD
Market Cap (\$m)	109.5
Sector	Health Care
Avg Daily Volume (m)	0.0
ASX 200 Weight (%)	0%

### Fundamentals

YE 30 Dec (USD)	FY15A	FY16E	FY17E	FY18E
Sales (\$m)	0.2	0.6	4.2	10.2
NPAT (\$m)	(12.2)	(11.7)	(13.9)	(9.1)
EPS (cps)	(7.9)	(4.6)	(5.4)	(3.5)
EPS Growth (%)	(18.6%)	42.3%	(18.7%)	34.6%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)				

### Ratios

YE 30 Dec	FY15A	FY16E	FY17E	FY18E
P/E (x)	(2.7)	(7.0)	(5.9)	(9.0)
EV/EBITDA (x)	(1.7)	(5.1)	(5.2)	(9.0)
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 (%)	(3.2%)	(8.1%)	(12.3%)	33.1%
Absolute (%)	(1.7%)	(5.6%)	(10.5%)	51.8%
Benchmark (%)	1.5%	2.5%	1.8%	18.7%



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### Event

Post meeting with Mike McCormack, OSP's founding MD, we are increasingly confident that the company is now set to realise its opportunities. Our forecasts are revised (Sales FY17 -\$2.3m, FY18 - \$3.4m), while our TP remains unchanged (\$0.70) as does our rating. BUY

### Highlights

- Sales traction and further sales growth is clear.** OSP has now reported 9 consecutive quarters of growth (units sold and samples). Over 4Q16 this reflected strong sales growth (43%) and 40+ hospitals at end of 4Q16 in the sample-to-purchase process. With a sample-to-purchase period of approx. 3-4 months, this covers off on sales growth for the next 3 quarters. Beyond that, we take confidence from the fact that OSP's sales reps have been getting 90% of physicians approached progressing on to evaluating the product. These factors will continue the growth in new hospitals purchasing (up 23% in 4Q16). In addition, with the introduction of the DyeVert system in 4Q15, average quarterly unit sales per hospital fell as hospitals sampled the new product. In San Antonio for example over 3Q15 it was selling on average over 20 units per hospital per quarter. We expect sales per hospital will build back to exceed that level which is indicative of the immediate low hanging potential across all sales territories. This is expected to drive another strong quarterly result and gain greater investor attention.
- San Antonio is now profitable and points to potentially significant group profits.** OSP's original sales territory in San Antonio, Texas is now profitable. It now has 70% of hospitals in the city purchasing; with units sold (236) exceeding the cashflow breakeven requirement of 225 per quarter. As per above, it is yet to bounce back to its 3Q15 level of 20 units per hospital per quarter; once it does it will be selling 325 units based on the current number of hospitals. The number of hospitals is however also set to expand as OSP's rep for the region starts to focus on Austin, Corpus Christi and Rio Grande Valley where we understand there is a further 15 hospitals. Once the key hospitals there are brought on, we estimate the full territory should generate \$2.6m (7450 x \$350 per unit) pa of sales and \$2.0m of Gross Margin pa.
- Other territories are following San Antonio, but at a faster trajectory.** With the confidence OSP has taken from the performance of San Antonio and its 3 other early territories (some of which are growing quicker than San Antonio), it is now putting additional sales representatives in new territories. It currently has 19 sales reps, and a further 9 are to be added by the end of CY 2017. Initially this will impact its cash burn, however its cash position was recently addressed with an oversubscribed A\$29m capital raising. OSP estimate the opportunity across the US is USD1.1b to \$1.4b.
- Other initiatives indicating success include:** i) Ongoing investment in growth initiatives include R&D on product such as the recently launched DyeVert Plus which is a next generation product; and ii) the expansion into Europe expected in late 2017 following a successful pilot program.

### Recommendation

The developments outlined above show OSP is now firmly on track to deliver on the potential we have long recognised. Consequently, with increased evidence of market acceptance and market opportunity continually coming through, the risk profile surrounding OSP is diminishing and relative to its market capitalisation, OSP looks increasingly attractive. With lower risk and consistent sales traction, we expect to see OSP's share price push back towards our 12 month target price. BUY.

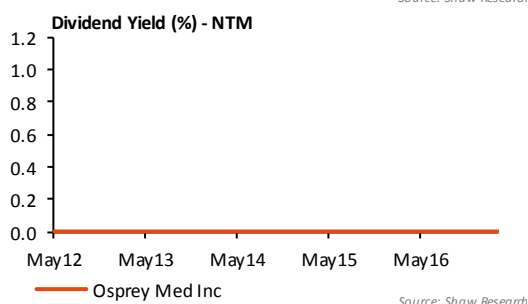
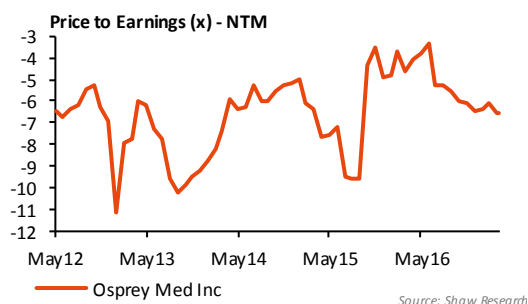
**Osprey Med Inc**  
**Health Care**  
**Health Care Equipment & Services**  
**FactSet: OSP-AU / Bloomberg: OSP AU**

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.43
Target Price (\$ps)	0.70
52 Week Range (\$ps)	0.20 - 0.50
Shares on Issue (m)	257.7
Market Cap (\$m)	109.5
Enterprise Value (\$m)	80.2
TSR (%)	64.7%

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.



### Financial Year End: 30 December

Investment Summary (USD)	FY14A	FY15A	FY16E	FY17E	FY18E
EPS (Reported) (cps)	(6.7)	(7.9)	(4.6)	(5.4)	(3.5)
EPS (Underlying) (cps)	(6.7)	(7.9)	(4.6)	(5.4)	(3.5)
EPS (Underlying) Growth (%)	(12.9%)	(18.6%)	42.3%	(18.7%)	34.6%
PE (Underlying) (x)	(6.6)	(2.7)	(7.0)	(5.9)	(9.0)
EV / EBIT (x)	(6.2)	(1.7)	(5.1)	(5.2)	(9.0)
EV / EBITDA (x)	(6.2)	(1.7)	(5.1)	(5.2)	(9.0)
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)	FY14A	FY15A	FY16E	FY17E	FY18E
Sales	0.0	0.2	0.6	4.2	10.2
Sales Growth (%)		2,142.1%	238.1%	617.8%	142.9%
Other Operating Income	0.0	0.0	0.0	0.0	0.0
EBITDA	(9.8)	(12.2)	(11.7)	(14.5)	(9.4)
EBITDA Margin (%)	nm	nm	nm	nm	(92.2%)
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(9.8)	(12.2)	(11.7)	(14.5)	(9.4)
EBIT Margin (%)	nm	nm	nm	nm	(92.2%)
Net Interest	0.0	0.1	0.0	0.6	0.3
Pretax Profit	(9.7)	(12.2)	(11.7)	(13.9)	(9.1)
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	(9.7)	(12.2)	(11.7)	(13.9)	(9.1)
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(9.7)	(12.2)	(11.7)	(13.9)	(9.1)
Cashflow (USD) (m)	FY14A	FY15A	FY16E	FY17E	FY18E
EBIT	(9.8)	(12.2)	(11.7)	(14.5)	(9.4)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	0.0	0.0	0.0	0.6	0.3
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Other	0.9	0.7	1.2	(0.3)	(1.0)
Operating Cashflow	(8.9)	(11.6)	(10.5)	(14.3)	(10.1)
Capex	(0.1)	(0.1)	(0.4)	0.0	0.0
Acquisitions and Investments	(5.0)	(0.6)	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	5.2	7.7	0.0	0.0	0.0
Other	0.0	0.3	0.0	0.0	0.0
Investing Cashflow	0.0	7.3	(0.4)	0.0	0.0
Equity Raised / Bought Back	0.0	11.9	21.0	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	0.0	11.9	21.0	0.0	0.0
Net Change in Cash	(8.8)	7.6	10.1	(14.3)	(10.2)
Balance Sheet (USD) (m)	FY14A	FY15A	FY16E	FY17E	FY18E
Cash	4.4	11.8	21.9	7.6	(2.6)
Accounts Receivable	0.0	0.0	0.1	0.7	1.7
Inventory	0.2	0.3	0.3	0.3	0.3
Other Current Assets	7.3	0.1	0.1	0.1	0.1
PPE	0.3	0.3	0.5	0.4	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	12.3	12.6	23.0	9.1	0.0
Accounts Payable	0.2	0.3	0.4	0.6	0.6
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	1.0	0.7	0.9	0.9	0.9
Total Liabilities	1.2	1.0	1.3	1.5	1.5
Total Shareholder Equity	11.1	11.6	21.6	7.7	(1.4)
Ratios	FY14A	FY15A	FY16E	FY17E	FY18E
ROE (%)	(62.4%)	(106.9%)	(70.5%)	(95.0%)	(290.7%)



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

## Risk Rating

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

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