

Osprey Med Inc (OSP)

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

1H17 Results in line with Expectations

Key Information

| | |
|-------------------------|-------------|
| Current Price (\$ps) | 0.44 |
| 12m Target Price (\$ps) | 0.70 |
| 52 Week Range (\$ps) | 0.32 - 0.50 |
| Target Price Upside (%) | 60.9% |
| TSR (%) | 60.9% |
| Reporting Currency | USD |
| Market Cap (\$m) | 112.1 |
| Sector | Health Care |
| Avg Daily Volume (m) | 0.1 |
| ASX 200 Weight (%) | 0% |

Fundamentals

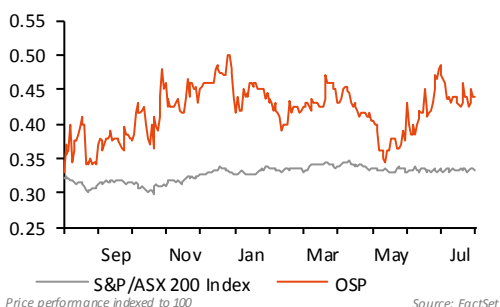
| YE 31 Dec (USD) | FY16A | FY17E | FY18E | FY19E |
|-----------------|--------|---------|-------|--------|
| Sales (\$m) | 0.6 | 4.2 | 10.2 | 18.0 |
| NPAT (\$m) | (11.7) | (13.9) | (9.1) | 0.3 |
| EPS (cps) | (4.6) | (5.4) | (3.5) | 0.1 |
| EPS Growth (%) | 42.3% | (18.7%) | 34.6% | 103.7% |
| DPS (cps) (AUD) | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking (%) | | | | |

Ratios

| YE 31 Dec | FY16A | FY17E | FY18E | FY19E |
|------------------|-------|-------|-------|-------|
| P/E (x) | (7.3) | (6.4) | (9.7) | nm |
| EV/EBITDA (x) | (5.5) | (5.6) | (9.7) | 232.8 |
| Div Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| Payout Ratio (%) | 0.0% | 0.0% | 0.0% | 0.0% |

Price Performance

| YE 31 Dec | 1 Mth | 2 Mth | 3 Mth | 1 Yr |
|---------------|--------|-------|-------|-------|
| Relative (%) | (7.8%) | 14.6% | 4.5% | 34.1% |
| Absolute (%) | (7.4%) | 16.0% | 4.8% | 38.1% |
| Benchmark (%) | 0.4% | 1.4% | 0.3% | 4.0% |



Major Shareholders

| | |
|-------------------------------|-------|
| Brandon Capital Partners | 23.5% |
| Talu Ventures | 13.2% |
| Kinetic Investment Management | 9.8% |

Event

OSP has reported its results for the six months to June 30 in line with our expectations and its 2Q17 4C released in July. Shaw and Partners forecasts, target price and rating are under review.

Highlights

- Sales growth continues to be strong.** 2H17 sales up 238% to USD0.697m. Sales momentum accelerated in 2Q 2017 to 42% quarter-on-quarter unit sales growth vs 1Q 2017. This is OSPs eleventh consecutive quarter of unit sales growth for its dye saving technologies. DyeVert and DyeVert Plus unit sales grew by 42% to 1,149 units in 2Q 2017, compared to 812 units sold in 1Q 2017. This represents growth of 244% compared with 2Q 2016.
- Net loss USD6.7m, Net cash at 30 June USD15m, Net cash following OSPs August capital raise is estimated to be ~USD50/AUD38m.**
- Leading indicators for future growth are strong,** with units sampled increasing by 15% and the pipeline of hospitals in the evaluation-to-purchase phase growing 18%. Total hospitals ordering DyeVert increased by 36% in 2Q 2017 vs 1Q 2017 and penetration with in hospitals was reported to be growing.
- Visibility to profitability is now clear.** OSP reported that its first two profitable sales territories in San Antonio and Atlanta continued to perform well in 2Q 2017, with other sales territories following a similarly strong sales trajectory. This bodes well for group profitability to be realised in line with expectations. This and OSPs strong balance sheet with cash of US\$15.1m at 30 June 2017 (A\$20.1m at FX rate of \$0.75) now has the company very well positioned to further increase the number of sales reps it has in order to fully realise its opportunities in a an addressable market estimated at USD1.8billion.

Recommendation

OSP has shown market acceptance and its risk profile is diminishing. Looking forward as OSP continues to demonstrate sales growth and move through profitability we expect its share price to push back towards our 12 month TP. BUY.

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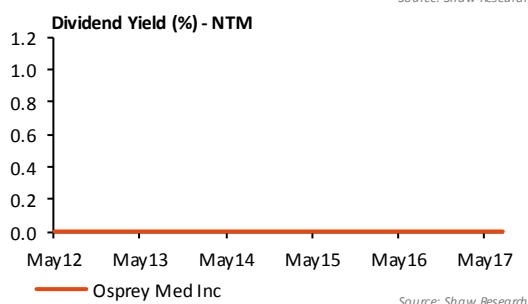
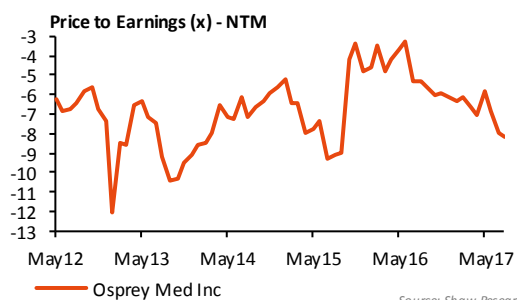
Osprey Med Inc
Health Care
Health Care Equipment & Services
FactSet: OSP-AU / Bloomberg: OSP AU

| Key Items | Data |
|------------------------|-------------|
| Recommendation | BUY |
| Risk | HIGH |
| Price (\$ps) | 0.44 |
| Target Price (\$ps) | 0.70 |
| 52 Week Range (\$ps) | 0.32 - 0.50 |
| Shares on Issue (m) | 257.7 |
| Market Cap (\$m) | 112.1 |
| Enterprise Value (\$m) | 102.2 |
| TSR (%) | 60.9% |

| 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: 31 December

| Investment Summary (USD) | FY15A | FY16A | FY17E | FY18E | FY19E |
|--------------------------------------|----------|---------|---------|----------|---------|
| EPS (Reported) (cps) | (7.9) | (4.6) | (5.4) | (3.5) | 0.1 |
| EPS (Underlying) (cps) | (7.9) | (4.6) | (5.4) | (3.5) | 0.1 |
| EPS (Underlying) Growth (%) | (18.6%) | 42.3% | (18.7%) | 34.6% | 103.7% |
| PE (Underlying) (x) | (2.8) | (7.3) | (6.4) | (9.7) | nm |
| EV / EBIT (x) | (1.8) | (5.5) | (5.6) | (9.7) | 232.8 |
| EV / EBITDA (x) | (1.8) | (5.5) | (5.6) | (9.7) | 232.8 |
| 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) | FY15A | FY16A | FY17E | FY18E | FY19E |
| Sales | 0.2 | 0.6 | 4.2 | 10.2 | 18.0 |
| Sales Growth (%) | 2,142.1% | 238.1% | 617.8% | 142.9% | 76.5% |
| Other Operating Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBITDA | (12.2) | (11.7) | (14.5) | (9.4) | 0.4 |
| EBITDA Margin (%) | nm | nm | nm | (92.2%) | 2.2% |
| Depreciation & Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | (12.2) | (11.7) | (14.5) | (9.4) | 0.4 |
| EBIT Margin (%) | nm | nm | nm | (92.2%) | 2.2% |
| Net Interest | 0.1 | 0.0 | 0.6 | 0.3 | (0.1) |
| Pretax Profit | (12.2) | (11.7) | (13.9) | (9.1) | 0.3 |
| 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 | (12.2) | (11.7) | (13.9) | (9.1) | 0.3 |
| Significant Items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT Reported | (12.2) | (11.7) | (13.9) | (9.1) | 0.3 |
| Cashflow (USD) (m) | FY15A | FY16A | FY17E | FY18E | FY19E |
| EBIT | (12.2) | (11.7) | (14.5) | (9.4) | 0.4 |
| Tax Paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Interest | 0.0 | 0.0 | 0.6 | 0.3 | (0.1) |
| Depreciation & Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.7 | 1.2 | (0.3) | (1.0) | (1.3) |
| Operating Cashflow | (11.6) | (10.5) | (14.3) | (10.1) | (1.0) |
| Capex | (0.1) | (0.4) | 0.0 | 0.0 | 0.0 |
| Acquisitions and Investments | (0.6) | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposal of Fixed Assets/Investments | 7.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing Cashflow | 7.3 | (0.4) | 0.0 | 0.0 | 0.0 |
| Equity Raised / Bought Back | 11.9 | 21.0 | 0.0 | 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 | 11.9 | 21.0 | 0.0 | 0.0 | 0.0 |
| Net Change in Cash | 7.6 | 10.1 | (14.3) | (10.2) | (1.1) |
| Balance Sheet (USD) (m) | FY15A | FY16A | FY17E | FY18E | FY19E |
| Cash | 11.8 | 21.9 | 7.6 | (2.6) | (3.6) |
| Accounts Receivable | 0.0 | 0.1 | 0.7 | 1.7 | 3.0 |
| Inventory | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other Current Assets | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| PPE | 0.3 | 0.5 | 0.4 | 0.5 | 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 | 12.6 | 23.0 | 9.1 | 0.0 | 0.3 |
| Accounts Payable | 0.3 | 0.4 | 0.6 | 0.6 | 0.5 |
| 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 | 0.7 | 0.9 | 0.9 | 0.9 | 0.9 |
| Total Liabilities | 1.0 | 1.3 | 1.5 | 1.5 | 1.4 |
| Total Shareholder Equity | 11.6 | 21.6 | 7.7 | (1.4) | (1.1) |
| Ratios | FY15A | FY16A | FY17E | FY18E | FY19E |
| ROE (%) | (106.9%) | (70.5%) | (95.0%) | (290.7%) | (26.8%) |

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Rating Classification

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

Risk Rating

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

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