

## Australian Equity Research

16 October 2016

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## BUY

unchanged

PRICE TARGET A\$0.65

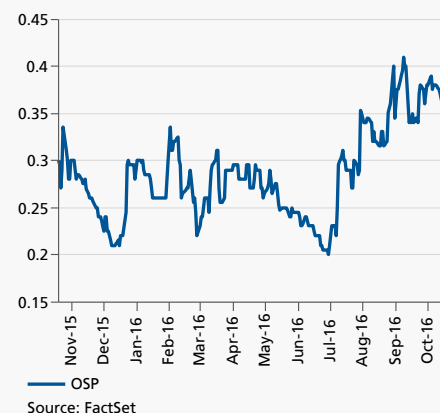
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Price (17-Oct) A\$0.40

Ticker OSP-ASX

52-Week Range (A\$):	0.19 - 0.67
Avg Daily Vol (000s) :	235.6
Market Cap (A\$M):	102
Shares Out. (M) :	257.7
Enterprise Value (A\$M):	66.9
Last Cash Balance (US\$M):	24.4
Last Quarter Cash Burn (US\$M):	2.3

FYE Dec	2015A	2016E	2017E	2018E
Sales (US\$M)	0.2	0.7↓	5.4↓	11.3
Previous	-	1.0	5.6	-
PBT (US\$M)	(12.2)	(12.8)↓	(9.4)	(7.5)
Previous	-	(12.5)	-	-
Net Income (US\$M)	(12.2)	(12.8)↓	(9.4)	(7.5)
Previous	-	(12.5)	-	-
EPS (¢)	(4.7)	(5.0)↓	(3.7)↓	(2.9)
Previous	-	(4.9)	(3.6)	-
Cash Position (US\$M)	11.8	20.1	10.6	3.1
Previous	-	26.8	17.4	9.9



## Company Update

## Getting Bigger In Texas

**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 reported solid growth with sales of DyeVERT up 34% from the previous quarter. In San Antonio, where OSP's products have been marketed for 8 quarters, 16 of 23 hospitals (70%) are currently purchasing DyeVERT with 3 of the remaining 7 hospitals currently trialing the product. We believe that nearly all sites which trial DyeVERT end up becoming commercial accounts. This rate of adoption in one market bodes well for the full national launch. Following the A\$29M capital raise in August, OSP intends to increase its sale force to 20 reps, which will cover approximately 70% of the US market, by the end of 2016. The impact of the 7 reps that were hired earlier this year is starting to be seen with approximately 60% of unit sales coming from outside San Antonio and 40 hospitals currently evaluating the product. With a strong regulatory drive to reduce the amount of contrast dye administered to patients and an expanding and well-funded sales effort, we expect to see significant sales growth over the next 12-18 months. Consequently, we maintain our BUY recommendation for OSP with a \$0.65 price target that is based on a 12yr DCF (12.3% discount rate, no terminal value).

## Key Points

**San Antonio experience indicates adoption will be strong** - OSP has been selling its dye-saving products (AVERT, and now DyeVERT) in San Antonio for 8 quarters. Assuming the 3 hospitals currently trialing DyeVERT become commercial accounts, over 80% of the hospitals in that market will be using OSP's products. This is an extraordinary adoption rate for any product and presumably reflects the regulatory focus on rates of kidney damage and rehospitalisation as measures of hospital performance that are linked to payments and penalties. Clearly, if this adoption rate is mirrored in other centres in the US, use of DyeVERT is likely to become the standard of care for treating patients at risk for contrast induced acute kidney damage.

**Significant increase in sales effort planned** - Earlier this year, OSP expanded its sales force from 2 to 9 reps. Given the time it takes to train new reps and to take new accounts through the trial-evaluate-approval-purchase process (typically 90-120 days), we are only now starting to see the impact of these new reps with 60% of the unit sales outside San Antonio and a strong pipeline of potential accounts trialing the device. OSP is planning to expand its sale team to 20 reps by year end, which will cover around 70% of the US market, and to 35 reps (100% of the US market) by the end of 2017.

**DyeVERT Plus expected early 2017** - OSP is expecting to launch DyeVERT Plus, which marries the automatic adjustment of DyeVERT with a bluetooth smart syringe that provides real-time data, in early 2017. We believe this will be a very attractive product for surgeons as it provides an accurate measure of dye used during procedure enabling compliance with AHA guidelines and the ability to make real time surgical decisions.

## FINANCIAL STATEMENTS

## Financial Performance

Year End	31 Dec	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Operating Revenue	US\$M	0.2	0.7	5.4	11.3	22.7	40.2	64.0	92.9	123.9	140.5
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
<b>Total Revenue</b>	<b>US\$M</b>	<b>0.2</b>	<b>0.9</b>	<b>6.1</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	-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>-12.2</b>	<b>-12.8</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	0.0	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
<b>EBIT</b>	<b>US\$M</b>	<b>-12.2</b>	<b>-12.8</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>
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	-12.9	-22.4
<b>Profit After Tax</b>	<b>US\$M</b>	<b>-12.2</b>	<b>-12.8</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>60.0</b>	<b>58.4</b>
<b>Per Share</b>											
EPS	cps	-4.7	-5.0	-3.7	-2.9	-0.3	4.3	10.3	19.1	23.3	22.6
Cash Backing	cps	4.6	7.8	4.1	1.2	0.9	5.2	15.5	34.6	57.9	80.5

## Cash Flow

Year End	31 Dec	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2022F	2022F
Receipts	US\$M	0.2	0.7	5.4	11.3	22.7	40.2	64.0	92.9	123.9	140.5
Suppliers & Employers	US\$M	-12.4	-13.7	-15.5	-20.3	-26.0	-33.1	-43.2	-51.2	-60.2	-70.9
Interest Received	US\$M	0.1	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	-12.9	-22.4
<b>Cash From Operations</b>	<b>US\$M</b>	<b>-11.6</b>	<b>-12.8</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>60.0</b>	<b>58.4</b>
<b>Cash From Investing</b>	<b>US\$M</b>	<b>7.3</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>11.9</b>	<b>21.1</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	4.1	11.8	20.1	10.6	3.1	2.4	13.5	40.0	89.1	149.2
Net Incr / (Decr) In Cash	US\$M	7.6	8.3	-9.4	-7.5	-0.8	11.1	26.4	49.2	60.0	58.4
<b>Closing Cash Balance</b>	<b>US\$M</b>	<b>11.8</b>	<b>20.1</b>	<b>10.6</b>	<b>3.1</b>	<b>2.4</b>	<b>13.5</b>	<b>40.0</b>	<b>89.1</b>	<b>149.2</b>	<b>207.5</b>
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
<b>Total cash assets</b>	<b>US\$M</b>	<b>11.8</b>	<b>20.1</b>	<b>10.6</b>	<b>3.1</b>	<b>2.4</b>	<b>13.5</b>	<b>40.0</b>	<b>89.1</b>	<b>149.2</b>	<b>207.5</b>

## Balance Sheet

Year End	31 Dec	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2022F	2022F
Cash & Cash Equivalents	US\$M	11.8	20.1	10.6	3.1	2.4	13.5	40.0	89.1	149.2	207.5
<b>Current Assets</b>	<b>US\$M</b>	<b>12.2</b>	<b>20.4</b>	<b>11.0</b>	<b>3.5</b>	<b>2.7</b>	<b>13.8</b>	<b>40.3</b>	<b>89.4</b>	<b>149.5</b>	<b>207.8</b>
<b>Non-Current Assets</b>	<b>US\$M</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>12.6</b>	<b>20.8</b>	<b>11.4</b>	<b>3.9</b>	<b>3.1</b>	<b>14.2</b>	<b>40.7</b>	<b>89.8</b>	<b>149.9</b>	<b>208.2</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
<b>Current Liabilities</b>	<b>US\$M</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	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>TOTAL LIABILITIES</b>	<b>US\$M</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	64.8	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0
Accumulated Profits / (Losses)	US\$M	-53.2	-65.9	-75.4	-82.8	-83.6	-72.5	-46.0	3.1	63.2	121.5
<b>TOTAL EQUITY</b>	<b>US\$M</b>	<b>11.6</b>	<b>20.1</b>	<b>10.7</b>	<b>3.2</b>	<b>2.4</b>	<b>13.5</b>	<b>40.0</b>	<b>89.2</b>	<b>149.2</b>	<b>207.6</b>

## Valuation

Risk Free Rate	4.6%	Forecast Period	years	12 years
Market Premium	5.5%	12-Month Price Target	\$	\$0.65
Beta	1.4	Current Price	\$	\$0.40
Discount Rate	12.3%	Return	%	65%

SOURCE: Company reports and Canaccord Genuity estimates

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### Investment Recommendation

Date and time of first dissemination: October 16, 2016, 21:19 ET

Date and time of production: October 16, 2016, 21:19 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 10/16/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	546	59.67%	34.80%
Hold	285	31.15%	18.95%
Sell	21	2.30%	14.29%
Speculative Buy	63	6.89%	73.02%
	915*	100.0%	

\*Total includes stocks that are Under Review

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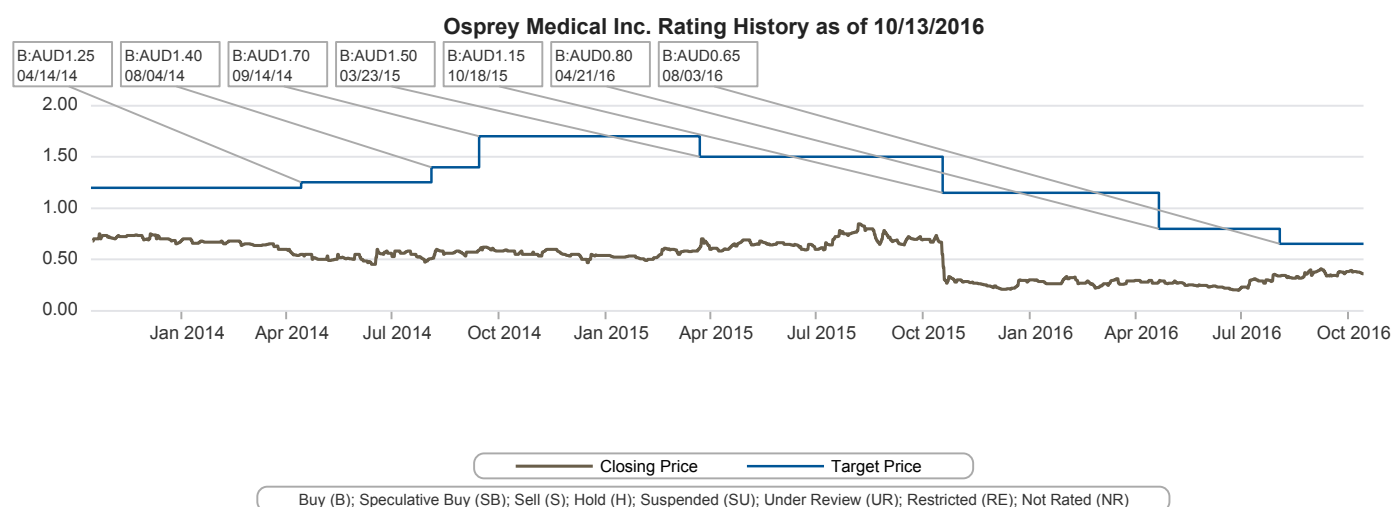
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