

Osprey Med Inc (OSP)

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

DyeVert Traction Flags Future Likely Success

Key Information

Current Price (\$ps)	0.40
12m Target Price (\$ps)	0.70
52 Week Range (\$ps)	0.20 - 0.67
Target Price Upside (%)	77.2%
TSR (%)	77.2%
Reporting Currency	USD
Market Cap (\$m)	60.9
Sector	Health Care
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

Fundamentals

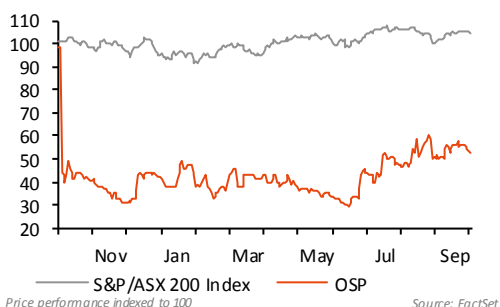
YE 30 Dec (USD)	FY15A	FY16E	FY17E	FY18E
Sales (\$m)	0.2	1.1	6.5	13.6
NPAT (\$m)	(12.2)	(11.9)	(2.3)	2.9
EPS (cps)	(987.2)	(463.6)	(88.1)	111.4
EPS Growth (%)	(25.1%)	53.0%	81.0%	226.5%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)				

Ratios

YE 30 Dec	FY15A	FY16E	FY17E	FY18E
P/E (x)	(0.0)	(0.1)	(0.3)	0.3
EV/EBITDA (x)	(1.2)	(6.2)	(24.6)	18.7
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 (%)	12.2%	25.1%	31.3%	(46.5%)
Absolute (%)	16.2%	23.4%	31.7%	(41.9%)
Benchmark (%)	4.0%	(1.7%)	0.4%	4.6%



Major Shareholders

Event

OSP has announced its sales results and operational metrics for 3Q16. Our forecasts, recommendation and target price remain unchanged.

Highlights

- Strong unit sales growth of 34% for the DyeVert and AVERT Systems in Q3 2016 as compared to Q2 2016 follows on from 45% growth over 2Q16. This represents unit sales growth of 239% for the quarter compared to the previous year's corresponding quarter. The conversion rate of hospitals upgrading from samples to initial product orders remains high at approximately 33%, with 39 hospitals having now purchased the AVERT or DyeVert Systems. A further 40 hospitals are in the evaluation to purchase cycle reflecting a strong pipeline of future DyeVert customers.
- OSPs original sales territory in San Antonio, Texas continued to record profitable growth in Q3 2016 with other territories following a similar sales trajectory. Over 70% of San Antonio hospitals have now approved and purchased Osprey's products, which demonstrates the clear potential for market adoption in other sales territories.
- OSP has reported eight consecutive quarters of growth in units sold and sampled since the first customer sale. The sales momentum OSP now has is encouraging and with plans for additional sales reps and territories this half; it provides scope for the trend to continue.
- Cash receipts increased in Q3 2016 to US\$123k and cash at the end of the period was US\$24.4m, reflecting a cash burn of \$2.3m pq.

Shaw and Partner's View

The US commercial launch of the DyeVert System occurred in Q42015. The system is now resulting in faster than expected adoption rates and greater numbers of new hospitals signing on to use OSP technology than we expected when DyeVert was launched. The key near term future development we are looking for, is further adoption of Dyevert and AVERT by a greater number of hospitals at similar rates of use to what OSP has been achieving over the last quarter.

Recommendation

Another solid sales growth quarter was delivered by OSP as expected which is very encouraging and shows OSP is now firmly on track to deliver on the potential we have long recognised. It now has nine sales reps, two more to start in October and a further nine to be added by the end of CY 2016. Initially this will impact its cash burn, however its cash position was addressed last quarter with an oversubscribed A\$29m capital raising. 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 attractive. This is not only due to sales traction but also as a result of what we believe was a misinterpretation of trial data which caused a halving of its capitalisation last October. With lower risk, lower capitalisation and consistent sales traction, we expect to see OSP's share price push back towards our 12 month target price. BUY.

Darren Vincent | Senior Analyst

+61 2 9238 1269

dvincent@shawandpartners.com.au

Matthew Johnston | Associate Analyst

+61 2 9238 1311

mjohnston@shawandpartners.com.au

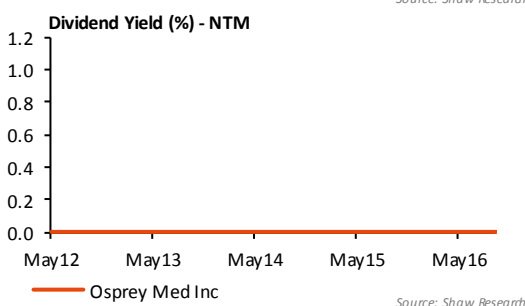
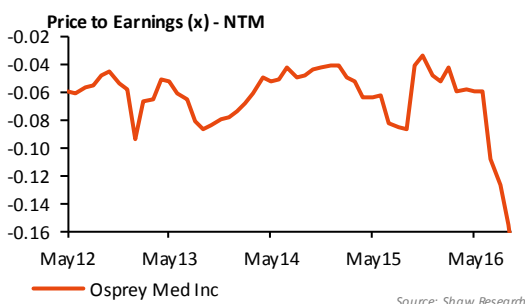
Osprey Med Inc
Health Care
Health Care Equipment & Services
FactSet: OSP-AU / Bloomberg: OSP AU

Key Items	Data
Recommendation	BUY
Risk	MEDIUM
Price (\$ps)	0.40
Target Price (\$ps)	0.70
52 Week Range (\$ps)	0.20 - 0.67
Shares on Issue (m)	154.2
Market Cap (\$m)	60.9
Enterprise Value (\$m)	102.2
TSR (%)	77.2%

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)	(789.2)	(987.2)	(463.6)	(88.1)	111.4
EPS (Underlying) (cps)	(789.2)	(987.2)	(463.6)	(88.1)	111.4
EPS (Underlying) Growth (%)	(12.9%)	(25.1%)	53.0%	81.0%	226.5%
PE (Underlying) (x)	(0.1)	(0.0)	(0.1)	(0.3)	0.3
EV / EBIT (x)	(5.1)	(1.2)	(6.2)	(24.6)	18.7
EV / EBITDA (x)	(5.1)	(1.2)	(6.2)	(24.6)	18.7
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	1.1	6.5	13.6
Sales Growth (%)		2,142.1%	506.6%	516.4%	110.4%
Other Operating Income	0.0	0.0	0.0	0.0	0.0
EBITDA	(9.8)	(12.2)	(12.4)	(3.3)	4.2
EBITDA Margin (%)	nm	nm	nm	(50.5%)	31.0%
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(9.8)	(12.2)	(12.4)	(3.3)	4.2
EBIT Margin (%)	nm	nm	nm	(50.5%)	31.0%
Net Interest	0.0	0.1	0.4	0.0	(0.1)
Pretax Profit	(9.7)	(12.2)	(11.9)	(3.2)	4.1
Tax	0.0	0.0	0.0	1.0	(1.2)
Tax Rate (%)	(0.0%)	(0.0%)	0.0%	(30.0%)	(30.0%)
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	(9.7)	(12.2)	(11.9)	(2.3)	2.9
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(9.7)	(12.2)	(11.9)	(2.3)	2.9
Cashflow (USD) (m)	FY14A	FY15A	FY16E	FY17E	FY18E
EBIT	(9.8)	(12.2)	(12.4)	(3.3)	4.2
Tax Paid	0.0	0.0	0.0	1.0	(1.2)
Net Interest	0.0	0.0	0.4	0.0	(0.1)
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Other	0.9	0.7	(0.1)	(1.0)	(1.2)
Operating Cashflow	(8.9)	(11.6)	(12.0)	(3.3)	1.7
Capex	(0.1)	(0.1)	0.0	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	0.0	0.0	0.0
Equity Raised / Bought Back	0.0	11.9	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	0.0	11.9	0.0	0.0	0.0
Net Change in Cash	(8.8)	7.6	(12.1)	(3.3)	1.6
Balance Sheet (USD) (m)	FY14A	FY15A	FY16E	FY17E	FY18E
Cash	4.4	11.8	(0.3)	(3.6)	(2.0)
Accounts Receivable	0.0	0.0	0.2	1.1	2.2
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	0.4	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	0.8	(1.6)	1.3
Accounts Payable	0.2	0.3	0.4	0.3	0.3
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	0.7	0.7	0.7
Total Liabilities	1.2	1.0	1.0	0.9	0.9
Total Shareholder Equity	11.1	11.6	(0.3)	(2.6)	0.3
Ratios	FY14A	FY15A	FY16E	FY17E	FY18E
ROE (%)	(62.4%)	(106.9%)	(210.8%)	157.5%	(251.8%)

Contacts Page

Equities

Head of Equities	Mike Ryan	+612 9238 1527	mryan@shawandpartners.com.au
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Research

Head of Research	Martin Crabb	+612 9238 1352	mcrabb@shawandpartners.com.au
Executive Assistant	Melody Matthews	+612 9238 1299	mmatthews@shawandpartners.com.au
Banks, Insurance, Telecoms	David Spotswood	+613 9268 1115	dspotswood@shawandpartners.com.au
	Annabel Riggs	+613 9268 1147	ariggs@shawandpartners.com.au
Diversified Financials, Strategy	Martin Crabb	+612 9238 1352	mcrabb@shawandpartners.com.au
	Elliot Smith	+612 9238 1293	esmith@shawandpartners.com.au
Infrastructure, Transport, Utilities	David Fraser	+612 9238 1323	dfraser@shawandpartners.com.au
	Matthew Johnston	+612 9238 1311	mjohnston@shawandpartners.com.au
Technology & Online, Contractors, Retailers	Danny Younis	+612 9238 1292	dyounis@shawandpartners.com.au
	Matthew Johnston	+612 9238 1311	mjohnston@shawandpartners.com.au
Life Sciences, Travel	Darren Vincent	+612 9238 1269	dvincent@shawandpartners.com.au
	Matthew Johnston	+612 9238 1311	mjohnston@shawandpartners.com.au
Metals & Mining	Peter O'Connor	+612 9238 1219	poconnor@shawandpartners.com.au
Real Estate	Peter Zuk	+612 9238 1211	pzuk@shawandpartners.com.au
Research Systems	Karl Jancar	+612 9238 1294	kjancar@shawandpartners.com.au

Income Strategies

	Cameron Duncan	+612 9238 1544	cduncan@shawandpartners.com.au
	Steve Anagnos	+612 9238 1513	sanagnos@shawandpartners.com.au

Institutional Sales

	Chris Eldridge	+613 9268 1185	celdridge@shawandpartners.com.au
	David Erskine	+613 9268 1061	derskine@shawandpartners.com.au
	Darin Lester	+612 9238 1236	dlester@shawandpartners.com.au
	Phillip Janis	+612 9238 1503	pjanis@shawandpartners.com.au
	Sam Kanaan	+612 9238 1275	skanaan@shawandpartners.com.au
	Scott Coventry	+612 9238 1363	scoventry@shawandpartners.com.au

Equity Capital Markets

	John Bowie Wilson	+612 9238 1253	jbowiewilson@shawandpartners.com.au
	Grace Belsito	+612 9238 1226	gbelsito@shawandpartners.com.au

Corporate Finance

Head of Corporate Finance	Geoff Carrick	+612 9238 1339	gcarrick@shawandpartners.com.au
	Damian Rigney	+612 9238 1398	drigney@shawandpartners.com.au
	David Kells	+612 9238 1362	dkells@shawandpartners.com.au
	Edward Loneragan	+612 9238 1283	eloneragan@shawandpartners.com.au
	Greg Bittar	+612 9238 1597	gbittar@shawandpartners.com.au
	Max Smouha-Ho	+612 9238 1268	msmouha-ho@shawandpartners.com.au
	Robert Hallam	+612 9238 1594	rhallam@shawandpartners.com.au
	Jeremy D'Sylva	+612 9238 1239	jdsylva@shawandpartners.com.au

Sydney | Head Office

Level 15, 60 Castlereagh Street
Sydney NSW 2000
Telephone: +61 2 9238 1238
Fax: +61 2 9232 1296
Toll Free: 1800 636 625

Melbourne

Level 20, 90 Collins Street
Melbourne VIC 3000
Telephone: +61 3 9268 1000
Fax: +61 3 9650 2277
Toll Free: 1800 150 009

Brisbane

Level 28, 111 Eagle Street
Brisbane QLD 4000
Telephone: +61 7 3036 2500
Fax: +61 7 3036 2599
Toll Free: 1800 463 972

Perth

Level 14, 197 St Georges Terrace
Perth WA 6000
Telephone: +61 8 6188 7643
Fax: +61 8 6188 7607
Toll Free: 1800 636 625

Adelaide

Level 21, 25 Grenfell Street
Adelaide SA 5000
Telephone: +61 8 7109 6000
Fax: +61 2 9232 1296
Toll Free: 1800 636 625

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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Sydney | Head Office
 Level 15, 60 Castlereagh Street
 Sydney NSW 2000
 Telephone: +61 2 9238 1238
 Fax: +61 2 9232 1296
 Toll Free: 1800 636 625

Melbourne
 Level 20, 90 Collins Street
 Melbourne VIC 3000
 Telephone: +61 3 9268 1000
 Fax: +61 3 9650 2277
 Toll Free: 1800 150 009

Brisbane
 Level 28, 111 Eagle Street
 Brisbane QLD 4000
 Telephone: +61 7 3036 2500
 Fax: +61 7 3036 2599
 Toll Free: 1800 463 972

Perth
 Level 14, 197 St Georges Terrace
 Perth WA 6000
 Telephone: +61 8 6188 7643
 Fax: +61 8 6188 7607
 Toll Free: 1800 636 625

Adelaide
 Level 21, 25 Grenfell Street
 Adelaide SA 5000
 Telephone: +61 8 7109 6000
 Fax: +61 2 9232 1296
 Toll Free: 1800 636 625