

Australian Equity Research

3 July 2017

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BUY

unchanged

PRICE TARGET A\$0.55

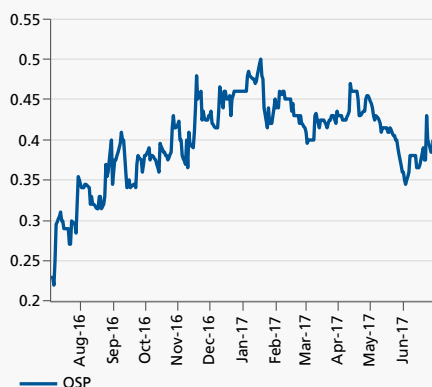
unchanged

Price (3-Jul) A\$0.42

Ticker OSP-ASX

52-Week Range (A\$):	0.20 - 0.51
Avg Daily Vol (000s) :	163.1
Market Cap (A\$M):	108
Shares Out. (M) :	257.9
Enterprise Value (A\$M):	77.1
Last Cash Balance (US\$M):	21.9
Last Quarter Cash Burn (US\$M):	2.5

FYE Dec	2016A	2017E	2018E	2019E
Sales (US\$M)	0.6	2.2	6.0	12.1
PBT (US\$M)	(11.7)	(12.1)	(11.9)	(7.9)
Net Income (US\$M)	(11.7)	(12.1)	(11.9)	(7.9)
EPS (¢)	(12.0)	(4.7)	(4.6)	(3.1)
Cash Position (US\$M)	20.8	8.7	(3.2)	(11.1)



Source: FactSet

Priced as of close of business 3 July 2017

Canaccord Genuity (Australia) Limited received a fee as a Joint Lead Manager to the Osprey Medical Inc capital raising announced on 4 August 2016.

Company Update

Watching The Detectives

Investment Perspective

OSP has announced that it intends to launch a new product, DyeTect, in the Dec-Q. DyeTect is the contrast dye monitoring and informatics system that was integrated into DyeVert-PLUS which received FDA clearance in March. DyeTect will provide real time monitoring of the volume of contrast that has been administered to a patient and report it against pre-calculated threshold volumes. However, unlike the DyeVert-PLUS product, DyeTect will not include the pressure modulation system that has been shown to reduce the amount of contrast dye used by up to 50% without adversely affecting the quality X-ray images. OSP intends to market DyeTect for US\$149 (v US\$350 for DyeVert-PLUS) for use in patients who do not have pre-existing chronic kidney disease (CKD) and are undergoing a cardiovascular procedure. The company estimates that there are approximately 3.5M patients each year in the US and Europe that meet this description. However, the clinical adoption of DyeTect will rely on the willingness of hospitals to cover the cost of the product for real time monitoring and to assist in meeting the reporting recommendations issued by the American Heart Association. We reiterate BUY with a \$0.55 price target (12yr DCF, no terminal value, 12.3% discount rate).

Key Points

For your eyes only - DyeTect will provide a lower cost option for clinicians who want the real-time contrast dye monitoring information provided by DyeVert-PLUS, but do not feel their patient requires the volume of contrast dye to be reduced using OSP's pressure modulation system. In 2014, the American Heart Association issued new guidelines which included:

"The writing committee also recommends that the total amount of contrast volume administered to a patient should be document[ed] clearly in the procedure report."

The use of an automated monitoring system will make it easier for doctors and hospitals to comply with these guidelines. Without this system, administered dye volumes are often crudely estimated from visual inspections, recording of individual dye injections, or before and after weighing of the dye bag.

Watching brief - the real time reporting will allow clinicians to better manage the volume of contrast they administer to patients. In some cases, this information may assist in making important clinical decisions such as limiting further dye injections or postponing part of the procedure (Eg. placement of additional stents). Thus, DyeTect potentially may provide access to a new patient group which is not at high risk of contrast-induced acute kidney injury (CI-AKI) but one in which the doctor still wants to closely monitor dye usage. However, unlike reducing dye usage by using DyeVert, the impact on clinical outcomes from DyeTect is likely to be relatively modest, particularly in patients who do not have pre-existing CKD and thus are at lower risk. Thus, the extent to which hospitals will be willing to pay for this monitoring function in the absence of clear cost-savings arising from improved clinical outcomes will only be known after the product is launched in the Dec-Q. We expect once this product is available, DyeVert-PLUS will primarily be used late-stage 3 CKD patients who are highly vulnerable to additional kidney damage from exposure to contrast dye.

FINANCIAL STATEMENTS

Financial Performance

Year End	31 Dec	2015A	2016A	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Operating Revenue	US\$M	0.2	0.6	2.2	6.0	12.1	18.7	31.9	56.1	80.4	106.7
Interest Revenue	US\$M	0.1	0.0	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
Total Revenue	US\$M	0.2	0.6	2.8	7.4	14.7	22.7	37.6	63.6	89.7	117.9
Operating Expenses	US\$M	-12.4	-12.3	-14.9	-19.3	-22.6	-26.2	-31.2	-37.9	-44.7	-72.0
EBITDA	US\$M	-12.2	-11.7	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
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
EBIT	US\$M	-12.2	-11.7	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
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	0.0	0.0
Profit After Tax	US\$M	-12.2	-11.7	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Per Share											
EPS	cps	-17.0	-12.0	-4.7	-4.6	-3.1	-1.3	2.5	10.0	17.4	17.8

Cash Flow

Year End	31 Dec	2015A	2016A	2017F	2018F	2019F	2020F	2021F	2022F	2022F	2022F
Receipts	US\$M	0.2	0.6	2.2	6.0	12.1	18.7	31.9	56.1	80.4	106.7
Suppliers & Employers	US\$M	-12.4	-11.1	-14.9	-19.3	-22.6	-26.2	-31.2	-37.9	-44.7	-72.0
Interest Received	US\$M	0.1	0.0	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
Cash From Operations	US\$M	-11.6	-10.5	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Cash From Investing	US\$M	7.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash From Financing	US\$M	11.9	21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Opening Cash Balance	US\$M	4.1	11.8	20.8	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5
Net Incr / (Decr) In Cash	US\$M	7.6	10.1	-12.1	-11.9	-7.9	-3.5	6.4	25.7	45.0	45.9
Closing Cash Balance	US\$M	11.8	21.9	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5	108.4
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
Total cash assets	US\$M	11.8	20.8	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5	108.4

Balance Sheet

Year End	31 Dec	2015A	2016A	2017F	2018F	2019F	2020F	2021F	2022F	2022F	2022F
Cash & Cash Equivalents	US\$M	11.8	21.9	8.7	-3.2	-11.1	-14.5	-8.2	17.5	62.5	108.4
Current Assets	US\$M	12.2	22.3	9.0	-2.8	-10.7	-14.2	-7.8	17.9	62.8	108.7
Non-Current Assets	US\$M	0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL ASSETS	US\$M	12.6	23.0	9.4	-2.4	-10.3	-13.8	-7.4	18.2	63.2	109.1
Current Debt	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	US\$M	0.6	1.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.6
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
Non-Current Liabilities	US\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL LIABILITIES	US\$M	0.7	1.3	0.7	0.7	0.7	0.7	0.7	0.7	0.7	2.7
Equity	US\$M	64.8	86.5	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9
Accumulated Profits / (Losses)	US\$M	-53.2	-64.9	-78.1	-90.0	-97.9	-101.4	-95.0	-69.3	-24.3	21.5
TOTAL EQUITY	US\$M	11.6	21.6	8.7	-3.1	-11.0	-14.5	-8.1	17.6	62.5	108.4

Valuation

Risk Free Rate	4.6%	Forecast Period	years	12 years
Market Premium	5.5%	12-Month Price Target	\$	\$0.55
Beta	1.4	Current Price	\$	\$0.42
Discount Rate	12.3%	Return	%	31%

SOURCE: Company reports and Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: July 03, 2017, 02:20 ET

Date and time of production: July 03, 2017, 02:20 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 07/03/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	581	60.97%	40.10%
Hold	271	28.44%	21.03%
Sell	26	2.73%	15.38%
Speculative Buy	75	7.87%	69.33%
	953*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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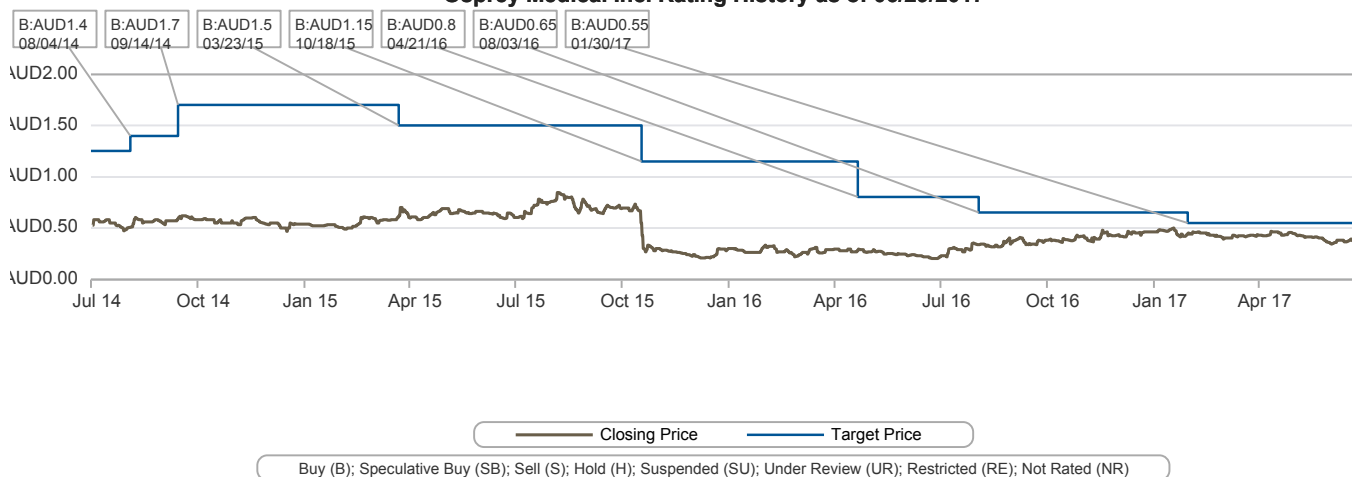
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