

Result Focus

Osprey Medical Inc. (OSP.ASX)



Thursday, 26 April 2018

Lacklustre sales delay breakeven

Recommendation: Positive

Last price **\$0.18**
Valuation **\$0.47**

TSR	
Upside to valuation	167.5%
Dividend yield	0.0%
Expected total SH return	167.5%

OSP.ASX share price history v XJO.ASX

Source: EAP Research, IRESS



Trading Data

Last Price	\$0.18
Valuation	\$0.47
12 month range	\$0.24 - \$0.48
Market Cap	\$59m
Free Float	\$30m (50%)
12 month return (historical)	(60.9%)

Earnings revisions

	FY17	% chg	FY18	% chg
REVENUE (\$m)	2	0.0%	3	(18.9%)
EBITDA (\$m)	(14)	(2.1%)	(14)	4.4%
Adj. EPS (c)	(5.0)	(2.3%)	(4.2)	5.0%
Val	\$0.47	(19.0%)		

1Q18 result disappoints

Osprey reported a less than impressive top line delivering unit sales growth of 7.2% vs our expectations of 27%. The disappointment stems largely from the San Antonio region where unit sales went backwards by 114 units. Outside of this region, unit growth across all other sales regions averaged at 18% growth. Despite the disappointment, we do expect changing clinical protocols for treatment will not follow a linear sales trajectory. We remain convinced in the product and the incentive for hospitals and surgeons to utilise the device. Momentum of hospitals acquiring product continues and increasing hospital penetration remains a focus. We have slowed our unit sales and downgraded our valuation to 47cps. On this basis considerable value exists and we maintain our Positive recommendation.

Slower sales increases cashburn and delays breakeven

The net cash burn for this quarter was \$4.48m which was +12.5% higher than in 4Q17 and 9% higher than management expected. Management had guided to lower cash burn in 2018 and expects 2Q18 cash burn to be lower, at \$4.2m. This has led management to revisit their guidance regarding breakeven pushing it out by 6 to 9 months with breakeven expected to be closer to the end of CY2021.

North Carolina hits cashflow positive status

Encouragingly, Osprey now has three sales regions that are cashflow positive. Nth Carolina hit this milestone 3 months ahead of budget during 1Q18. Osprey has 5 more sales regions that have been in operation between 1-2 years. Of those, 3 sales reps are on track to beat budget with the remaining 2 sales reps being slightly behind budget, but only just. The remaining 10 sales reps have been in the field for less than 1 year. We also note that no new sales reps commenced during the period which didn't help however, 3 new sales reps will commence May 2018.

Focus on National Contracts

One of the key growth strategies was the targeting of national contracts with Group Purchasing Organisations (GPO). OSP is currently working on contracts with Premier (2,100 CKD centres) and HCA (140 CKD centres). The outcome of the national contract applications are expected in 2018 allowing member hospitals to purchase DyeVert Plus without requiring separate approvals by hospital.

Earnings Forecasts

Yr to December	14A	15A	16A	17E	18E	19E
EBITDA (\$m)	(10)	(12)	(12)	(14)	(14)	(15)
Rep NPAT (\$m)	(10)	(12)	(12)	(14)	(14)	(16)
Adj NPAT (\$m)	(10)	(12)	(12)	(14)	(14)	(16)
Adj. EPS (c)	(15.8)	(7.9)	(6.2)	(5.0)	(4.2)	(4.6)
Adj. EPS Gth (%)	-	(50.0)	(21.2)	(19.1)	(15.8)	9.0
PER (x)	NM	NM	NM	NM	NM	NM
PEG Ratio (x)	-	0.0	0.1	0.2	0.3	NM
DPS (c)	0.0	-	-	-	-	-
Yield (%)	0.0	-	-	-	-	-
Franking (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	(87.5)	(106.9)	(70.5)	(53.1)	(57.1)	(154.7)
EV/EBITDA (x)	NM	NM	NM	NM	NM	NM
Net Debt/EBITDA (x)	0.5	1.0	1.9	2.3	1.3	0.2
Int. Cover (x)	-	-	-	-	-	-
Valuation (blended)						\$0.47

Source: EAP Research

EARNINGS REVISIONS

Table 1. Earnings Revisions

Source: Company data, E&P estimates

EARNINGS REVISIONS

Metric Yr to June	Sales (\$m)			EBITDA (\$m)			NPAT (\$m)			EPS (¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
2018E	3.7	3.0	(18.3%)	(13.5)	(14.1)	(5.0%)	(13.7)	(14.4)	(5%)	(4.0)	(4.2)	(4.9%)
2019E	13.4	8.4	(37%)	(12.5)	(15.4)	(23%)	(12.8)	(15.7)	(22%)	(3.8)	(4.6)	(22%)
2020E	31.0	18.9	(39%)	(4.2)	(6.5)	(54%)	(4.6)	(6.9)	(49%)	(1.4)	(2.0)	(49%)
DCF Valuation				\$0.58	\$0.47	(19.3%)						

Source: Company data, Evans & Partners Research estimates

We have significantly reduced the unit sales ramp of San Antonio suggesting a maturing of this region in the short term and then a re-acceleration of sales as awareness grows enhancing the penetration of DyeVert within existing hospitals.

Similarly, we have significantly slowed the ramp up of sales across new regions. The resulting impact delays our break-even position to late 2021. One small mitigating factor is the improvement in gross margin.

We also note the spike in wages expense is due to the annual payment of bonuses which is not replicated across the remainder of CY2018.

The above changes impacted our valuation by 19.3% to 47cps.

FINANCIAL SUMMARY

Osprey Medical Inc.		OSP.ASX									
As at:	26/04/2018	Recommendation:			Positive	Share Price:	\$0.18				
Year end	December	2016A	2017E	2018E	2019E	Year end	December	2016A	2017E	2018E	2019E
INCOME STATEMENT						VALUATION METRICS					
Sales revenue	\$m	1	2	3	8	PER	x	NM	NM	NM	NM
EBITDA	\$m	(12)	(14)	(14)	(15)	Dividend Yield	%	-	-	-	-
Depreciation	\$m	0	0	0	0	EV/EBITDA	x	NM	NM	NM	NM
EBIT (ex associates)	\$m	(12)	(14)	(14)	(16)	EV/EBIT	x	NM	NM	NM	NM
Equity accounted profits	\$m	-	-	-	-	P/FCF	x	NM	NM	NM	NM
EBIT (incl associates)	\$m	(12)	(14)	(14)	(16)	P/BV	x	2.1	1.8	3.3	25.8
Net interest	\$m	0	0	0	0	BLENDED VALUATION					
Pre-tax profit	\$m	(12)	(14)	(14)	(16)	Discounted Cash Flow	\$/sh	0.47	100.0%		
Tax expense	\$m	0	0	0	0	Capitalisation of Earnings	\$/sh	0.00	0.0%		
Net profit	\$m	(12)	(14)	(14)	(16)	PER	\$/sh	0.00	0.0%		
Oth./Outside equity interests	\$m	0	0	0	0	SOTP	\$/sh				
NPAT attributable to s'hers	\$m	(12)	(14)	(14)	(16)	EARNINGS					
Net abnormal items	\$m	0	0	0	0	Blended Valuation	m	0.47	100.0%		
Reported NPAT	\$m	(12)	(14)	(14)	(16)	Closing shares on issue	m	258	340	340	340
BALANCE SHEET						EFPOWA	¢	189	285	340	340
Assets						Adj. EPS	¢	(6.2)	(5.0)	(4.2)	(4.6)
Cash	\$m	22	32	18	3	DPS	%	-	-	-	-
Working Capital	\$m	0	1	1	3	FINANCIAL RATIOS					
PP&E	\$m	1	1	1	1	Franking	%	0.0	0.0	0.0	0.0
Intangibles	\$m	0	0	0	0	Sales Growth	%	237.8	178.7	83.1	181.5
Investments	\$m	-	-	-	-	EBITDA Growth	%	(3.9)	22.6	(0.7)	8.7
Other	\$m	0	0	0	0	EBIT Growth	%	(3.9)	22.9	(0.4)	9.0
Total Assets	\$m	23	34	20	8	Adj. EPS Growth	%	(21.2)	(19.1)	(15.8)	9.0
Liabilities						Tax Rate	%	0.0	0.0	0.0	0.0
Debt	\$m	0	0	0	0	EBITDA Margin	%	(1,986.2)	(873.6)	(473.8)	(182.9)
Working Capital	\$m	0	1	1	5	EBIT Margin	%	(2,009.2)	(885.7)	(481.6)	(186.6)
Other	\$m	1	1	1	1	ROA	%	(66.1)	(50.6)	(53.0)	(110.4)
Total Liabilities	\$m	1	2	2	6	ROE	%	(70.5)	(53.1)	(57.1)	(154.7)
Net Assets	\$m	22	32	18	2	ROCE	\$m	6,541.9	(394,676)	(7,324.6)	3,227.5
Ordinary Equity	\$m	22	32	18	2	Net Debt (cash)	%	(22)	(32)	(18)	(3)
Minority Interests	\$m	-	-	-	-	Net Debt/Equity	%	(101.0)	(99.3)	(99.1)	(149.6)
Total Shareholders' Funds	\$m	22	32	18	2	Net Debt/Debt + Equity	x	10,085.8	(14,348.)	(10,568.)	301.5
Capital Employed	\$m	0	0	0	(1)	Net Debt/EBITDA	%	1.9	2.3	1.3	0.2
CASH FLOW						Working Capital/Sales	%	(3.4)	31.6	4.1	(18.8)
EBITDA	\$m	(12)	(14)	(14)	(15)	D&A/PP&E	x	24.6	29.0	22.4	21.5
Change in Working Capital	\$m	0	0	0	2	DIVISIONAL SUMMARY					
Other	\$m	1	1	0	0	EBIT Interest Cover		-	-	-	-
Gross Operating Cash Flow	\$m	(11)	(14)	(14)	(14)		\$m	-	-	-	-
Net interest paid	\$m	0	0	0	0						
Tax paid	\$m	0	0	0	0						
Net Operating Cash Flow	\$m	(11)	(14)	(14)	(14)						
Maintenance capex	\$m	0	0	0	0						
Free Cash Flow	\$m	(11)	(14)	(14)	(14)						
Dividends paid	\$m	-	-	-	-						
Net acquisitions/Growth capex	\$m	0	0	0	0						
Equity raisings/Buybacks	\$m	21	24	0	0						
Net borrowings	\$m	0	0	0	0						
Other	\$m	0	0	0	0						
Net change in cash	\$m	10	10	(14)	(14)						
GOCF/EBITDA	%	90.6	97.2	97.2	88.9						
Total Capex/Sales	%	71.1	19.7	23.4	8.3						
Total Capex/Depreciation	x	3.1	1.6	3.0	2.3						

Source: Company data, E&P estimates

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Positive	Stock is expected to outperform the S&P/ASX 200 over the coming 24 months
Neutral	Stock expected to perform in line with the S&P/ASX 200 over the coming 24 months
Negative	Stock is expected to underperform the S&P/ASX 200 over the coming 24 months
Speculative Buy	Stock has limited history from which to derive a fundamental investment view or its prospects are highly dependent on event risk, <i>eg.</i> Successful exploration, scientific breakthrough, high commodity prices, regulatory change, etc.
Suspended	Stock is temporarily suspended due to compliance with applicable regulatory and/or Evans & Partners policies in circumstances where Evans & Partners is acting in an advisory capacity.
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Valuation	Composite of Rolling 12 month prospective multiples and discounted cash flow (DCF), or DCF for resource stocks.
Earnings Outlook	Forecast 2 year EPS growth.
Earnings Momentum	Percentage change in the current consensus EPS estimate for the stock (rolling 1 year forward basis) over the consensus EPS estimate for the stock 3 months ago.
Shareholder Returns	Composite of forecast ROE (rolling 1 year forward basis) and the percentage change in ROE over 2 years.
Debt Servicing Capacity	Rolling 12 month EBIT Interest Cover ratio.
Cyclical Risk	Qualitative assessment of the 2 year outlook for a stock/industry's profit cycle.
Industry Quality	Qualitative assessment of an industry's growth/returns potential and company specific management capability.
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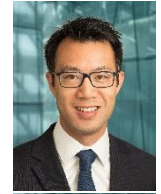
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