

Result Focus

Osprey Medical Inc. (OSP.ASX)



Tuesday, 29 January 2019

4Q18 result: Steady as she goes

Recommendation: Positive

Last price **\$0.13**

Valuation **\$0.36**

TSR	
Upside to valuation	191.5%
Dividend yield	0.0%
Expected total SH return	191.5%

OSP.ASX share price history v XJO.ASX

Source: EAP Research, IRESS



Trading Data

Last Price	\$0.13
Valuation	\$0.36
12 month range	\$0.10 - \$0.35
Market Cap	\$42m
Free Float	\$21m (50%)
12 month return (historical)	(63.8%)

Earnings revisions

	FY18	% chg	FY19	% chg
REVENUE (\$m)	2.5	0.8%	4.8	-0.8%
EBITDA (\$m)	-16.2	4.7%	(16.9)	0.4%
Adj. EPS (c)	(4.2)	0.2%	(4.0)	9.0%
DPS (c)	0.0	-	0.0	-
Val	\$0.36	(1.5%)		

4Q18 Result – Double digit sales, cash burn improves

Osprey delivered a decent 4Q18 result with DyeVert Plus unit sales up +55.9% vs pcp (+16.6% sequentially) and +4.6% vs EAPf. The company beat our 4Q18 sales revenue estimates (+2.8%) which was impacted by an increasing proportion of sales achieved through GPOs that attract a 5% administration fee and weighs on the company's average selling price (ASP). Over time, distributor sales to Italy may do the same considering the transfer price has been negotiated at ~50% of US ASP's. However, distributor sales are currently immaterial (<10% of OSP sales) with the direct sales model in the US remaining the key focus. Cash burn was \$3.8m for the quarter, marginally better than the ~\$4.3m average cash burn across 1Q18-3Q18. Going forward, we estimate cash burn to be maintained at \$3.8m in 1Q19. We also note, Osprey's latest product iteration, the DyeVert EZ contributed to 4Q18 sales and given its ability to reduce device preparation time for surgery is expected to be its leading product by 2Q19.

GPO driving an increase in Hospitals Penetration

Post the signing of Premier in 3Q18, OSP sales focus remains on hospitals who procure through Group Purchasing Organisations (GPO). OSP has already contracted with one of the biggest and will extend its reach via contracting with other GPO's. The majority of GPO sales in 4Q18 were derived from OSP's existing hospitals which will now secure product via their GPO contract. In the shorter term, this dilutes ASPs from GPO fees but over time will fast track sales. Importantly, we note an encouraging uptick in penetration to existing hospital customers demonstrating the acceptance of the product amongst physicians.

Sustainable sales growth required for re-rate

Across the last 12 months, OSP's share price has suffered from a slowdown in sales growth (FY18: +50% vs pcp, FY17: +178% vs pcp) and the volatility in quarterly sales making it difficult to gauge the run rate for top line and cash burn. There was little to fault in the 4Q18 result, but the market is unlikely to read too much into a single positive quarter. Osprey's valuation gap in our view however remains compelling and should be unlocked once confidence in its product proposition and sales execution builds. Maintain Positive recommendation.

Earnings Forecasts

Yr to December	15A	16A	17A	18E	19E	20E
EBITDA (\$m)	(12)	(12)	(14)	(16)	(17)	(8)
Rep NPAT (\$m)	(12)	(12)	(14)	(16)	(17)	(8)
Adj NPAT (\$m)	(12)	(12)	(14)	(16)	(17)	(8)
Adj. EPS (c)	(7.9)	(6.2)	(5.0)	(4.2)	(4.0)	(1.9)
Adj. EPS Gth (%)	-	(21.2)	(19.1)	(16.3)	(5.5)	(53.2)
PER (x)	NM	NM	NM	NM	NM	NM
PEG Ratio (x)	-	0.1	0.1	0.2	0.6	0.1
DPS (c)	0.0	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	(106.9)	(70.5)	(53.1)	(55.1)	(95.7)	(150.6)
EV/EBITDA (x)	NM	NM	NM	NM	NM	NM
Net Debt/EBITDA (x)	1.0	1.9	2.3	1.6	0.4	0.1
Int. Cover (x)	-	-	-	-	-	-
Valuation (DCF)						\$0.36

Source: EAP Research

EARNINGS REVISIONS

Table 1. Earnings Revisions

Source: Company data, E&P estimates

Metric Yr to June	Units			Sales (\$m)			EBITDA (\$m)			NPAT (\$m)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
2018E	7,574	7,723	2.0%	2.5	2.5	0.8%	(17.0)	(16.2)	4.7%	(17.0)	(16.2)	4.7%
2019E	14,986	15,278	2.0%	4.8	4.8	(0.8%)	(17.0)	(16.9)	0.4%	(17.2)	(17.2)	0.3%
2020E	35,380	36,139	2.1%	11.4	11.4	(0.6%)	(7.8)	(7.8)	0.0%	(8.0)	(8.0)	0.0%
DCF Valuation							\$0.37	\$0.36	(1.5%)			

4Q18 revenue and unit sales came in ahead of our forecast. Shift in sales mix to US GPO and marginal ex US distributor sales means ASP in 4Q18 was approximately -3% lower. Importantly, underlying ASPs sold to hospitals were stable at U\$354. Incorporating the dilution to ASPs our FY19/FY20 sales forecasts **declined by -0.8% and -0.6% respectively**.

Cashflow from operations in 4Q18 was better than we had expected, and as such, we marginally reduce the cash burn in FY19 resulting in an EBITDA increase of +0.4%.

Our DCF valuation drops by -1.5% as we account for the strengthening of the AUD versus the USD since the 3Q18 4C release.

RISING PENETRATION WITHIN HOSPITALS DRIVES DYEVERT SALES

Osprey achieved 15% sequential revenue growth in 4Q18 with DyeVert unit sales growing by 17%. While new hospitals contributed, management noted that the bulk of the growth came from increasing penetration within existing hospitals. We highlight the following key drivers of penetration in 4Q18, and going forward:

- **GPO strategy:** Some of OSP’s existing hospitals were part of the GPOs OSP signed with. GPOs use a variety of data driven tools to inform members of the cost benefit of DyeVert.
- **DyeVert EZ/ DyeVert Plus:** The launch of DyeVert EZ, which reduces device prep time to seconds, has contributed to penetration as it is easier to train nurses on the EZ than the Plus, resulting in higher adoption across the hospital. Management expect **DyeVert EZ to account for ~75% of sales by 2Q19**.
- **R&D effort:** OSP continues to spend on R&D, with a power injection compatible product expected in FY19, which will help DyeVert capture the interventional radiology space within the hospitals.

Chart 1. DyeVert unit sales per US hospital

Source: Company data, E&P estimates



We assume 3% of DyeVert unit sales in 4Q18 were in Italy, resulting in 15.2 units sold per hospital.

This represents a units per hospital sold increase of 7.4% sequentially, and 8.2% vs pcp

FINANCIAL SUMMARY

Osprey Medical Inc.		OSP.ASX			
As at:	29/01/2019	Recommendation:		Positive	Share Price: \$0.13
Year end	December	2017A	2018E	2019E	2020E
INCOME STATEMENT					
Sales revenue	\$m	2	3	5	11
EBITDA	\$m	(14)	(16)	(17)	(8)
Depreciation	\$m	0	0	0	0
EBIT (ex associates)	\$m	(14)	(16)	(17)	(8)
Equity accounted profits	\$m	0	0	0	0
EBIT (incl associates)	\$m	(14)	(16)	(17)	(8)
Net interest	\$m	0	0	0	0
Pre-tax profit	\$m	(14)	(16)	(17)	(8)
Tax expense	\$m	0	0	0	0
Net profit	\$m	(14)	(16)	(17)	(8)
Oth./Outside equity interests	\$m	0	0	0	0
NPAT attributable to s'holders	\$m	(14)	(16)	(17)	(8)
Net abnormal items	\$m	0	0	0	0
Reported NPAT	\$m	(14)	(16)	(17)	(8)
BALANCE SHEET					
Assets					
Cash	\$m	32	25	8	1
Working Capital	\$m	1	2	3	4
PP&E	\$m	1	1	1	1
Intangibles	\$m	0	0	0	0
Investments	\$m	-	-	-	-
Other	\$m	0	0	0	0
Total Assets	\$m	34	28	12	5
Liabilities					
Debt	\$m	0	0	0	0
Working Capital	\$m	1	0	1	3
Other	\$m	1	1	1	1
Total Liabilities	\$m	2	1	2	4
Net Assets	\$m	32	27	9	1
Ordinary Equity	\$m	32	27	9	1
Minority Interests	\$m	-	-	-	-
Total Shareholders' Funds	\$m	32	27	9	1
Capital Employed	\$m	0	1	2	1
CASH FLOW					
EBITDA	\$m	(14)	(16)	(17)	(8)
Change in Working Capital	\$m	0	0	(1)	1
Other	\$m	1	0	0	0
Gross Operating Cash Flow	\$m	(14)	(16)	(18)	(7)
Net interest paid	\$m	0	0	0	0
Tax paid	\$m	0	0	0	0
Net Operating Cash Flow	\$m	(14)	(16)	(18)	(7)
Maintenance capex	\$m	0	0	0	0
Free Cash Flow	\$m	(14)	(16)	(18)	(7)
Dividends paid	\$m	-	-	-	-
Net acquisitions/Growth capex	\$m	0	0	0	0
Equity raisings/Buybacks	\$m	24	10	0	0
Net borrowings	\$m	0	0	0	0
Other	\$m	0	0	0	0
Net change in cash	\$m	10	(6)	(18)	(7)
GOCF/EBITDA	%	97.2	101.0	103.3	85.6
Total Capex/Sales	%	19.7	12.3	4.2	2.6
Total Capex/Depreciation	x	1.6	1.3	0.9	1.0
VALUATION METRICS					
PER	x	NM	NM	NM	NM
Dividend Yield	%	0.0	0.0	0.0	0.0
EV/EBITDA	x	NM	NM	NM	NM
EV/EBIT	x	NM	NM	NM	NM
P/FCF	x	NM	NM	NM	NM
P/BV	x	1.3	2.0	5.8	40.9
BLENDED VALUATION					
Discounted Cash Flow	\$/sh	0.36	100.0%		
EAP Valuation	\$/sh	0.36	100.0%		
EARNINGS					
Closing shares on issue	m	340	432	432	432
EFPOWA	m	285	386	432	432
Adj. EPS	c	(5.0)	(4.2)	(4.0)	(1.9)
DPS	c	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0
FINANCIAL RATIOS					
Sales Growth	%	178.7	54.2	90.4	137.4
EBITDA Growth	%	22.6	13.5	4.9	(54.2)
EBIT Growth	%	22.9	13.6	4.7	(53.2)
Adj. EPS Growth	%	(19.1)	(16.3)	(5.5)	(53.2)
Tax Rate	%	0.0	0.0	0.0	0.0
EBITDA Margin	%	(873.6)	(642.9)	(354.1)	(68.3)
EBIT Margin	%	(885.7)	(652.5)	(358.8)	(70.8)
ROA	%	(50.6)	(53.0)	(87.3)	(95.1)
ROE	%	(53.1)	(55.1)	(95.7)	(150.6)
ROCE	%	(394.676)	(2,171.7)	(1,103.3)	(630.5)
Net Debt (cash)	\$m	(32)	(25)	(8)	(1)
Net Debt/Equity	%	(99.3)	(95.2)	(80.5)	(45.1)
Net Debt/Debt + Equity	%	(14,348.)	(1,962.2)	(412.8)	(82.1)
Net Debt/EBITDA	x	2.3	1.6	0.4	0.1
Working Capital/Sales	%	31.6	45.6	35.7	5.2
D&A/PP&E	%	29.0	31.7	30.0	36.8
EBIT Interest Cover	x	-	-	-	-

Source: Company data, E&P estimates

RESEARCH RECOMMENDATION DEFINITIONS

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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LLC	<p>A director of Evans Dixon Limited, the ultimate holding company of Evans and Partners Pty Ltd, is a director of Lendlease Group.</p>
LSF	<p>Evans and Partners has arranged, managed or co-managed an offering of securities of the company or its affiliates in the past 12 months, for which it received a fee.</p>
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MQG	Evans and Partners has arranged, managed or co-managed an offering of securities of the company or its affiliates in the past 12 months, for which it received a fee.
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