



RESPIRI (RSH.AX)

Manufacturing Efficiencies to Lift Margins

Update

4 November 2020

Respiri Executing on Multiple Fronts

Respiri management has guided to lower cost of goods sold (COGS) for CY21 resulting in product gross margins for wheezo™ version 3.0 of around 55% compared with 40% cited previously. This has been driven by manufacturing efficiencies gained after management insourced key design and development competencies as well as reductions in labour rates and assembly & test procedure related costs. The news coincides with the launch of wheezo™ in Australia by major distribution partner Cipla and bodes well for lower overall input costs given potential economies at higher scale of production. Separately, the company has renegotiated commercial terms of its global manufacturing agreement with Australian based Entech Electronics to allow for payment on delivery of manufactured units as opposed to upfront payments effectively lowering working capital requirements.

Higher Gross Margins Add to Pricing Flexibility

Notably, the lower COGS represent a further 30% reduction to the previously achieved 85% reduction in manufacturing costs. Beyond improving profitability, expanding gross margins enhance Respiri's ability to adjust pricing models, if required, to meet demand across different demographics and price sensitivities given the anticipated roll-out of wheezo™ globally.

Patent Application for Next Gen wheezo™ Filed

Respiri continues to strengthen its Intellectual Property (IP) position with the filing of an additional patent application based on improvements to the wheezo™ algorithm made over the last 6 months. The additional IP relates to a more refined method of processing recordings of a subject's breathing, containing pitch that is characteristic of wheeze via the trachea while concurrently eliminating background noise, allowing for an improved level of detection of a standardised and reproducible measure of wheeze.

Valuation

Our valuation Respiri increases by ~10% to A\$267m from A\$244m. However, this equates to a base case valuation of A\$0.37/share after factoring in new shares on issue related to the recent capital raising. Our base case assumes - commercial roll-out with distribution partner Cipla in Australia and New Zealand in FY21, and incorporates a probability-weighted adjustment (we have applied 60%) of Cipla extending its agreement with Respiri for commercial roll-out into the United Kingdom, France, Germany and Italy in FY22. The US market has not been included in our base-case valuation given the still-pending FDA approval of wheezo™, the lack of a distribution partner at time of writing, and the longer-term timeframe on this potential market launch. However, we view this as a source of substantial potential upside to our conservative valuation.



Respiri Limited is a commercial stage health-tech company developing mHealth and SaaS solutions for respiratory health management. It has proprietary technology and mobile health tools that specifically detect wheeze (an indicator of asthma, COPD, and respiratory disease more broadly) to provide an objective measure of airflow limitation. The company's flagship 'wheezo' device and platform analyses breathing objectively, allowing for environmental factors; record, monitor and schedule medication including reminders; and share data with healthcare providers. Both CE (Conformite Europeene) mark and Therapeutic Goods administration (TGA) approval received.

Stock	RSH
Price	A\$0.16
Market cap	A\$111m

Company data	
Net cash	A\$3.5m (30 June '20)
Shares on issue	718.5m
Code ASX	RSH

Next steps	
2HCY20	FDA approval of wheezo

RSH share price (one year, A\$)



Exhibit 1 – Summary financial statements

Financial Summary (AUD 000's)	FY19a	FY20a	FY21e	FY22e	FY23e	FY24e
PROFIT & LOSS						
Total Revenue	1,031	2,207	8,664	28,425	79,309	93,901
Operating Costs	-9,501	-9,458	-9,706	-20,049	-37,061	-37,827
EBITDA	-8,475	-7,252	-1,043	8,376	42,248	56,074
EBIT	-8,480	-7,263	-1,056	8,359	42,222	56,031
Tax	0	0	0	0	0	0
NPAT (Reported)	-8,475	-7,261	-1,049	8,370	42,253	56,088
NPAT (Underlying)	-8,475	-7,261	-1,049	8,370	42,253	56,088
Minority Interest	0	0	0	0	0	0
Shares Outstanding (m)	525.9	716.9	716.9	716.9	716.9	716.9
EPS (Underlying) cps	-1.70	-1.27	-0.15	1.17	5.89	7.82
Dividend per share (cps)	0	0	0	0	0	0
BALANCE SHEET						
Current Assets	1,003	4,431	15,865	24,222	66,402	122,370
Cash	307	3,552	14,986	23,343	65,524	121,491
Receivables	162	8	8	8	8	8
Inventory	0	309	309	309	309	309
Other Assets	535	561	561	561	561	561
Non-Current Assets	11	188	204	218	290	411
PP&E	10	188	204	218	290	411
Goodwill	0	0	0	0	0	0
Other Non-current Assets	1	0	0	0	0	0
Current Liabilities	2,576	1,996	1,996	1,996	1,996	1,996
Payables	1,757	1,131	1,131	1,131	1,131	1,131
Short Term Debt	806	717	717	717	717	717
Provisions & Tax	0	0	0	0	0	0
Other financial liabilities	13	148	148	148	148	148
Non-Current Liabilities	0	128	128	128	128	128
Long Term Debt	0	0	0	0	0	0
Provisions	0	0	0	0	0	0
Other financial liabilities	0	128	128	128	128	128
Net Assets	-1,563	2,495	13,946	22,316	64,568	120,656
Share Capital	106,043	113,695	126,195	126,195	126,195	126,195
Reserves	1,590	4,106	4,106	4,106	4,106	4,106
Retained Earnings	-109,197	-115,306	-116,355	-107,985	-65,733	-9,644
Minority Interests	0	0	0	0	0	0
Total Equity	-1,563	2,495	13,946	22,316	64,568	120,656
CASH FLOW						
Operating Cash Flow	-6,411	-4,688	-1,036	8,386	42,279	56,131
Working Capital Change	-576	-1,101	807	0	0	0
Maintenance Capex	-3	-13	-30	-30	-98	-163
Expansion Capex	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0
Investing Cash Flow	-3	-13	-30	-30	-98	-163
Equity Issued	3,750	8,532	12,500	0	0	0
Debt Issued	800	0	0	0	0	0
Dividends	0	0	0	0	0	0
Financing Cash Flow	4,332	7,959	12,500	0	0	0
Change in Cash Balance	-2,083	3,259	11,434	8,356	42,181	55,967

Source: Respiri, MST Access.

Disclaimers

MST Access is a registered business name of MST Financial Services Pty Ltd (ACN 617 475 180 "MST Financial") which is a limited liability company incorporated in Australia on 10 April 2017 and holds an Australian Financial Services Licence (Number: 500 557). This research is issued in Australia through MST Access which is the research division of MST Financial. The research and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by MST Access is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

This report has been commissioned by Respire Limited and prepared and issued by Chris Kallos of MST Access in consideration of a fee payable by Respire Limited. MST Access receives fees from the company referred to in this document, for research services and other financial services or advice we may provide to that company. The analyst has received assistance from the company in preparing this document. MST Financial has provided and received compensation for investment banking services to the subject company within the past 12 months. The company has provided the analyst with communication with senior management and information on the company and industry. As part of due diligence, the analyst has independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in the report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing this report and making the recommendation. Where MST Access has been commissioned to prepare Content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid will either directly or indirectly impact the Content provided.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of MST Access at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, MST Access shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note. No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by MST Access, and under no circumstances will any of MST Financial's officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content

General Advice Warning

MST Access Research may not be construed as personal advice or recommendation. MST encourages investors to seek independent financial advice regarding the suitability of investments for their individual circumstances and recommends that investments be independently evaluated. Investments involve risks and the value of any investment or income may go down as well as up. Investors may not get back the full amount invested. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer's securities or investments. The information contained within MST Access Research is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy. Analysis contained within MST Access Research publications is based upon publicly available information and may include numerous assumptions. Investors should be aware that different assumptions can and do result in materially different results.

MST Access Research is distributed only as may be permitted by law. It is not intended for distribution or use by any person or entity located in a jurisdiction where distribution, publication, availability or use would be prohibited. MST makes no claim that MST Access Research content may be lawfully viewed or accessed outside of Australia. Access to MST Access Research content may not be legal for certain persons and in certain jurisdictions. If you access this service or content from outside of Australia, you are responsible for compliance with the laws of your jurisdiction and/or the jurisdiction of the third party receiving such content. MST Access Research is provided to our clients through our proprietary research portal and distributed electronically by MST to its MST Access clients. Some MST Access Research products may also be made available to its clients via third party vendors or distributed through alternative electronic means as a convenience. Such alternative distribution methods are at MST's discretion.

Access and Use

Any access to or use of MST Access Research is subject to the Terms and Conditions of MST Access Research. By accessing or using MST Access Research you hereby agree to be bound by our Terms and Conditions and hereby consent to MST collecting and using your personal data (including cookies) in accordance with our Privacy Policy (<https://mstfinancial.com.au/privacy-policy/>), including for the purpose of a) setting your preferences and b) collecting readership data so we may deliver an improved and personalised service to you. If you do not agree to our Terms and Conditions and/or if you do not wish to consent to MST's use of your personal data, please do not access this service.

Copyright of the information contained within MST Access Research (including trademarks and service marks) are the property of their respective owners. MST Access Research, or any portion thereof, may not be reprinted, sold or redistributed without the prior and written consent of MST