

Volpara Health Technologies Ltd

All the tools to deliver, now to execute

VHT have released their FY20 result and delivered underlying revenue of NZ\$16.3m which was well flagged following the recent release of guidance. At the end of the year, ARR sat at NZ\$18m up materially on the pcp having been supported by the acquisition of MRS systems. ARPU and penetration are at US\$1.04 and 27.1% respectively, with ARPU growing 11% following the acquisition. The MRS integration is now largely complete, with the company in a position to ramp up the transition of existing customers from legacy systems to the SaaS platform. VHT have also now had 12 months to build awareness of the broader Volpara offering, and we should start to see increasing sales conversions. This hasn't happened yet however, with modest organic growth accompanied by accelerating losses. We expect management to start focussing on costs over the coming 12 months, which should help to bring a breakeven point in to clearer focus, but we are equally as interested in seeing a meaningful acceleration in ARR. Covid-19 remains a key challenge however, and with VHT trading on an FY21 EV/Sales of 12.2x we want to see evidence of momentum before getting more positive. Maintain Hold.

Recent sales are a cause for positivity

In 4Q20, the ARPU on new Volpara Enterprise contracts ranged between US\$1.45 – US\$3.50. Sales of Enterprise Live! and Aspen can also each deliver an incremental \$1.50 - \$2.00 in ARPU. If this pricing can be maintained and conversions ramp up then this should give rise to a material increase in ARPU. Our FY21 forecasts assume ARPU of US\$1.41 and penetration of 28%, with growth largely coming from sales in to the existing userbase.

Capital not the issue, with M&A likely

Following the recent capital raise, VHT has net cash of NZ\$69m, implying more than 4 years runway at FY20 cash burn rate. Given the expected improving cash flow profile, this should be more than enough to get to breakeven. Given that, we believe M&A is likely in the short-term, with a possible focus on unlocking VHT's substantial bank of images.

FY21 EV/Sales of 12.2x. Maintain Hold

Key Financials					
Year-end March (\$)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (\$m)	5.7	16.3	23.1	30.9	43.1
EBITDA (\$m)	(11.9)	(17.8)	(8.8)	(7.4)	0.4
EBIT (\$m)	(12.2)	(18.8)	(11.9)	(9.7)	(1.5)
Reported NPAT (\$m)	(11.8)	(22.3)	(11.9)	(9.6)	(1.4)
Reported EPS (c)	(7.9)	(12.2)	(5.4)	(3.9)	(0.6)
Normalised NPAT (\$m)	(11.8)	(16.1)	(10.9)	(8.6)	(0.5)
Normalised EPS (c)	(7.9)	(8.8)	(5.0)	(3.5)	(0.2)
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Normalised ROE (%)	-	-	-	-	-

Source: OML, Iress, Volpara Health Technologies Ltd

Last Price

A\$1.40

Target Price

A\$1.46 (Previously A\$1.47)

Recommendation

Hold

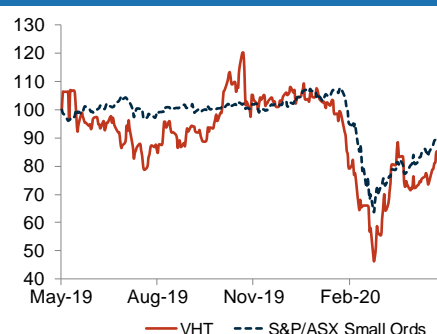
Risk

Higher

Health Care Technology

ASX Code	VHT
52 Week Range (\$)	0.81 - 2.09
Market Cap (\$m)	339.3
Shares Outstanding (m)	242.4
Av Daily Turnover (\$m)	0.0
3 Month Total Return (%)	1.4
12 Month Total Return (%)	-19.5
Benchmark 12 Month Return (%)	-7.2
NTA FY21E (¢ per share)	21.2
Net Cash FY21E (\$m)	60.2

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY21E	FY22E
NPAT (C) (\$m)	(9.3)	(4.6)
NPAT (OM) (\$m)	(10.9)	(8.6)
EPS (C) (c)	(3.9)	(1.9)
EPS (OM) (c)	(5.0)	(3.5)

Source: OML, Iress, Volpara Health Technologies Ltd

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Balance sheet to support aspirations

FY20 result

- VHT have released their FY20 result, reporting underlying revenue of NZ\$16.3m, up materially on FY19 and in line with our expectations following release of guidance to coincide with the recent capital raising.
- Underlying EBITDA was a loss of NZ\$17.8m, greater than our expectations (\$16.2) behind higher costs. Normalised NPAT was -NZ\$16.1m, in line with OMLe.
- ARPU and penetration at the end of FY20 was US\$1.04 and 27.1% respectively.
- Cash receipts were in line with revenue for the year (NZ\$16.4m) while net operating cash flows were -NZ\$15.9m with capex of NZ\$1m.
- Cash at the end of FY20 was NZ\$31.4m, however this has increased to NZ\$69m following the recent capital raise, implying more than 4 years of runway at the existing burn rate.

Figure 1: Result overview

	FY19	FY20a	%Δ pcp	FY20e	%Δ OMLe
Underlying Revenue*	5.7	16.3	508.6%	16.2	-0.5%
Costs	-17.6	-34.1	294.4%	-32.4	-5.1%
Underlying EBITDA	-11.9	-17.8	191.8%	-16.2	-9.2%
D&A	-0.3	-0.9	475.5%	-0.8	-11.3%
EBIT	-12.2	-18.8	198.8%	-17.0	-9.3%
Net interest	0.4	0.7	156.5%	0.5	-29.7%
PBT	-11.8	-18.1	200.3%	-16.5	-8.5%
Tax	0.0	1.9	n/a	0.0	-100.0%
Normalised NPAT	-11.8	-16.1	221.0%	-16.5	2.5%

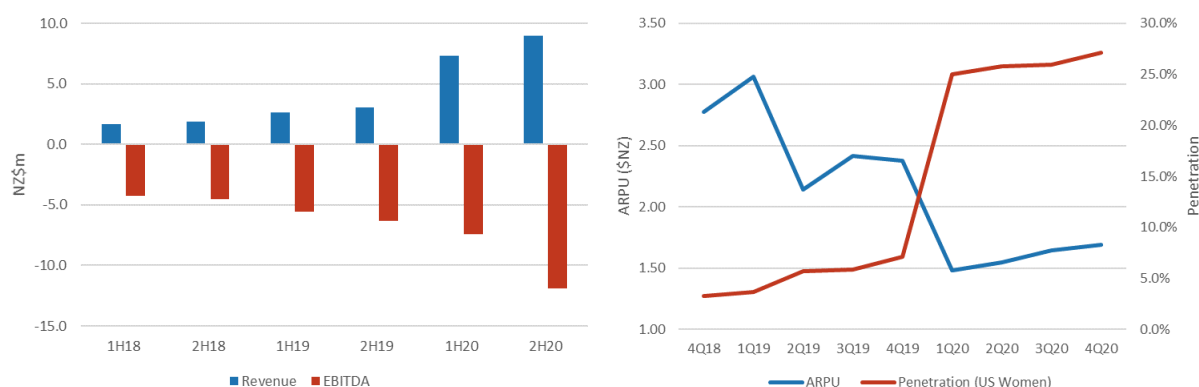
*Accounting for acquisition related, non-cash adjustments

Source: OML

Key points & Outlook

- VHT has gradually grown revenue over time, supported by the MRS acquisition at the beginning of FY20. This caused a step change in revenue and penetration; however, it came at the expense of ARPU and a continued deterioration of profitability.

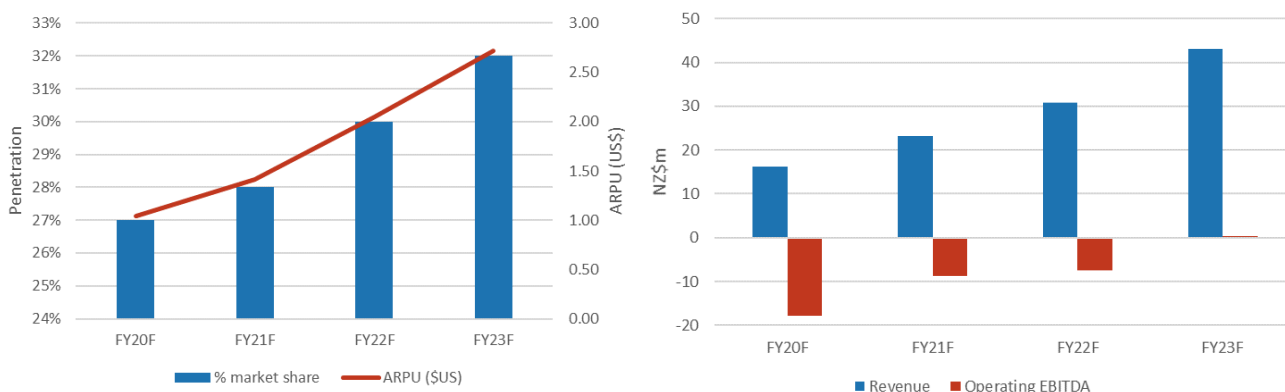
Figure 2 & 3: Revenue & EBITDA (1H18 – 2H20); ARPU & Penetration (4Q18 – 4Q20)



Source: OML, VHT

- The acquisition of MRS had a number of strategic aims. Firstly, it served to increase the number of women covered by VHT software, which would provide for greater cross-selling opportunities. The expectation was that the short-term dilution of ARPU would be reversed by selling Volpara Enterprise and associated products into the acquired user base, as well as gradually shifting MRS users across to a SaaS based contracts. Neither of these initiatives have yet to meaningfully deliver, however the next 12 months should see an acceleration as the company begins to ramp up conversion from legacy systems.
- A second critical reason for acquiring MRS was to enhance VHT's capability across the entire patient journey, with a specific focus on risk assessment, so that the company could present a complete and sophisticated offer to clinics, and their patients.
- This integration is now largely complete and if the company can successfully demonstrate the power of the integrated platform, then both ARPU and penetration should begin to move materially higher.
- The average ARPU of new contracts in Q420 ranged between US\$1.45 - US\$3.50. Currently group wide ARPU is \$US1.04. Our FY21 forecasts currently assume ARPU of US\$1.41 and 28% penetration, with growth largely coming via cross selling into the existing user base.
- Completion of the MRS integration should also offer opportunities to drive cost synergies, thereby helping to arrest the businesses accelerating losses.

Figure 4 & 5: ARPU & Penetration (FY20 – FY23F); Revenue & EBITDA (FY20 – FY23F)



Source: OML, VHT

- This earnings profile will see the business through to breakeven with more than NZ\$50m in cash. This makes a near term acquisition likely in our view.
- VHT has all the tools at their disposal to drive meaningful growth in FY21 (additional product, market share, capital), however this has been the case in prior periods and yet we still haven't seen the acceleration. Covid-19 adds another layer of complication, which may impair the sales pipeline and slow conversion. Having said that, recent weeks have demonstrated good early signs of a return in volume.

Changes to forecasts

- Modest changes at the cost line

Figure 6: Change to forecasts

	Old FY20e	New FY20e	Δ%	Old FY21e	New FY21e	Δ%	Old FY22e	New FY22e	Δ%
Revenue	17.8	16.3	-8.5%	23.0	23.1	0.7%	30.8	30.9	0.3%
Costs	-32.5	-34.1	5.1%	-32.6	-31.9	-2.0%	-38.9	-38.3	-1.5%
EBITDA	-14.7	-17.8	21.7%	-9.6	-8.8	-8.5%	-8.2	-7.4	-9.7%
D&A	-0.8	-0.9	12.8%	-0.9	-1.0	12.7%	-1.0	-1.0	-0.5%
EBIT	-15.5	-18.8	21.2%	-10.4	-9.8	-5.7%	-9.2	-8.4	-8.5%
Net interest	0.5	0.7	37.0%	1.0	0.9	-8.4%	1.1	1.1	2.9%
PBT	-15.0	-18.1	20.7%	-9.5	-8.9	-6.4%	-8.0	-7.3	-8.9%
Tax	0.0	1.9	n/a	0.0	0.0	n/a	0.0	0.0	n/a
Normalised NPAT	-15.0	-16.1	7.7%	-9.5	-8.9	-6.4%	-8.0	-7.3	-8.9%
Normalised EPS	-0.1	-0.1	7.7%	0.0	0.0	-27.1%	0.0	0.0	30.7%
One-offs after tax	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
Reported NPAT	-15.0	-22.3	48.8%	-9.5	-8.9	-6.4%	-8.0	-7.3	-8.9%
Reported EPS	-0.1	-0.1	48.8%	0.0	0.0	-6.4%	0.0	0.0	-8.9%

Source: OML

Valuation & Recommendation

Recent signs of a recovery in patient volumes is a positive sign for the resilience of the industry, and its capacity to continue investing. This bodes well for VHT.

The company is at an important stage of maturity, having built out a comprehensive solution covering multiple stages of the patient journey. This should allow the business to drive an acceleration in ARR, achieved via growth in ARPU or penetration.

VHT is trading on an EV/Sales multiple of 12.2x however, and despite our long-standing positive view on the utility of VHT software, this acceleration has proven elusive. As has operating leverage, with growth in revenue accompanied by ever expanding losses.

We currently forecast an improvement in this earnings profile in FY21, and for growth in ARPU to accelerate, however in light of where VHT is trading, and the ongoing uncertainty associated with Covid-19, we are keen to see evidence of this occurring before becoming more positive.

We maintain a Hold recommendation with a price target of \$1.46.

Volpara Health Technologies Ltd

PROFIT & LOSS (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Revenue	5.7	16.3	23.1	30.9	43.1
Operating costs	(16.7)	(33.8)	(29.2)	(33.7)	(37.1)
Operating EBITDA	(11.9)	(17.8)	(8.8)	(7.4)	0.4
D&A	(0.3)	(0.9)	(3.1)	(2.3)	(1.9)
EBIT	(12.2)	(18.8)	(11.9)	(9.7)	(1.5)
Net interest	0.4	0.7	0.9	1.1	1.1
Pre-tax profit	(11.8)	(18.1)	(10.9)	(8.6)	(0.5)
Net tax (expense) / benefit	-	1.9	-	-	-
Normalised NPAT	(11.8)	(16.1)	(10.9)	(8.6)	(0.5)
Reported NPAT	(11.8)	(22.3)	(11.9)	(9.6)	(1.4)
Normalised dil. EPS (cps)	(7.9)	(8.8)	(5.0)	(3.5)	(0.2)
Reported EPS (cps)	(7.9)	(12.2)	(5.4)	(3.9)	(0.6)
Effective tax rate (%)	-	-	-	-	-
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	182.7	219.4	246.3	246.3	246.3

CASH FLOW (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA incl. adjustments	(11.9)	(17.8)	(8.8)	(7.4)	0.4
Change in working capital	0.2	0.6	2.7	0.0	0.0
Net Interest (paid)/received	0.3	0.5	0.9	1.1	1.1
Income tax paid	0.0	(0.1)	-	-	-
Other operating items	0.7	0.9	-	-	-
Operating Cash Flow	(10.6)	(16.0)	(5.2)	(6.3)	1.5
Capex	(0.7)	(1.0)	(1.0)	(1.0)	(1.0)
Acquisitions	-	(21.7)	-	-	-
Other investing items	(8.8)	(0.7)	-	-	-
Investing Cash Flow	(9.5)	(40.0)	(1.0)	(1.0)	(1.0)
Inc/(Dec) in equity	21.5	58.6	35.0	-	-
Inc/(Dec) in borrowings	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing items	(0.8)	(3.1)	-	-	-
Financing Cash Flow	20.7	55.2	35.0	-	-
FX adjustment	0.2	0.3	-	-	-
Net Inc/(Dec) in Cash	0.6	(0.7)	28.8	(7.3)	0.5

BALANCE SHEET (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Cash	14.4	31.4	60.2	52.9	53.4
Receivables	1.9	7.1	5.7	7.7	10.7
Other current assets	0.8	2.1	2.1	2.1	2.1
PP & E	0.3	1.0	1.2	1.3	1.4
Intangibles	0.4	26.4	23.2	20.8	18.9
Other non-current assets	1.2	1.6	1.6	1.6	1.6
Total Assets	19.0	73.1	97.5	89.9	91.6
Short term debt	-	-	-	-	-
Payables	2.3	4.5	5.8	7.7	10.8
Other current liabilities	2.3	10.9	11.8	12.6	13.1
Long term debt	-	-	-	-	-
Other non-current liabilities	0.1	-	-	-	-
Total Liabilities	4.8	20.9	23.0	25.7	29.3
Total Equity	14.2	52.3	74.5	64.2	62.2
Net debt (cash)	(14.4)	(31.4)	(60.2)	(52.9)	(53.4)

Hold

DIVISIONS	2019A	2020A	2021E	2022E	2023E
Key Stats (NZ\$m)					
ARR per woman (\$NZ)	2.4	1.6	2.3	3.1	3.9
ARR per woman (\$US)	1.7	1.0	1.4	2.0	2.7
US market share (m)	2.8	10.8	11.3	12.3	13.2
US market share (%)	7.0	27.0	28.0	30.0	32.0

KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	61.9	184.6	42.1	33.4	39.5
EBITDA margin	-	-	-	-	0.9
OCF/EBITDA	98.3	96.5	69.8	99.8	106.9
EBIT margin	-	-	-	-	-
Return on assets	-	-	-	-	-
Return on equity	-	-	-	-	-

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	-	-	-	-	-
Price To Free Cash Flow	-	-	-	-	766.1
Price To NTA	18.9	12.0	7.1	8.4	8.4
EV / EBIT	-	-	-	-	-

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	7,050.5	(150.3)	(418.4)	(467.9)	(601.9)
Net Debt / EBITDA (%)	121.4	175.9	684.5	714.1	(13,873.0)
EBIT Interest Cover (x)	30.0	26.9	13.0	8.6	1.4
EBITDA Interest Cover (x)	29.2	25.6	9.6	6.6	-

SUBSTANTIAL HOLDERS	m	%
Harbour Asset Management	19.7	8.1%
Roger Allen	18.5	7.6%
Ralph Higham	16.2	6.7%

VALUATION	
Cost of Equity (%)	13.4
Cost of debt (after tax) (%)	5.3
D / EV (%)	-
WACC (%)	13.4

Forecast cash flow (\$m)	95.0
Terminal value (\$m)	218.5
Enterprise Value (\$m)	313.5
Less net debt / add net cash & investments (\$m)	60.2
Equity NPV (\$m)	373.7
Equity NPV Per Share (\$)	1.52

Target Price Method	DCF
Target Price (\$)	1.46
Valuation disc. / (prem.) to share price (%)	4.4

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SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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