

Respiri

Acquisition update

Investor recap of Respiri's strategic focus

Respiri's recent investor presentation recapped management's strategic rationale for and the merits of the company's proposed acquisition of Access Managed Services, its US remote patient monitoring (RPM) and chronic care management partner. We maintain that the acquisition will provide further impetus to Respiri's US commercialisation plans for wheezo, diversify the company's operations and expand the addressable market. Importantly, the post-acquisition RPM monthly annuity will rise to US\$70–100 from US\$10–20 per patient, allowing break-even to be reached at 9,000 patients (by end-CY24) versus 30,000 patients previously, a target we see as more achievable. The decision to pay out the US\$3m deal consideration over three milestone-linked tranches is also sound, tempering the financing risk, in our opinion. We will present our revised estimates and valuation following the deal closure, which we expect by early July 2023.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	PBT* (A\$m)	EPS* (c)	P/revenue (x)	P/E (x)
06/21	1.4	(8.4)	(8.5)	(1.22)	22.3	N/A
06/22	0.8	(6.2)	(6.3)	(0.87)	41.5	N/A
06/23e	1.7	(4.2)	(4.2)	(0.51)	18.7	N/A
06/24e	5.9	(1.1)	(1.1)	(0.13)	5.5	N/A

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Access deal to springboard Respiri's growth

We believe the proposed acquisition of Access to be an extension of the already successful collaboration Respiri has had with the RPM provider since February 2022, with improved oversight likely to expedite new customer adoption and patient onboarding. The wheezo health portal is already integrated with Access's RPM platform, Remotli, and we see potential for further synergies to be unlocked. We also note that Access's presence in other disease areas such as cardiovascular conditions, diabetes and obesity provides upside growth opportunity for Respiri (three times the current addressable market, according to Respiri) with potential for incremental revenues under the chronic care management (CCM) codes.

New funding to offer additional headroom

Based on the Q323 operating cash burn rate of A\$1.2m (end-March 2023 net cash of A\$0.9m), we expect the A\$6.5m capital raise (including a A\$2m share purchase plan and A\$4.5m in convertible notes) to provide up to a 12-month cash runway, including payment of the first two tranches (total US\$1.5m/A\$2.3m) of the acquisition consideration. This includes US\$1.25m upfront and US\$0.25m three months post deal closure. An additional US\$1.5m will be payable 12 months post deal closure, contingent on the monthly RPM patient enrolment exceeding 6,000.

Valuation: Unchanged pending deal closure

Our valuation remains virtually unchanged at A\$164.2m (A\$165.5m previously) or A\$0.2/share after incorporating the latest net cash figure and pending completion of the proposed acquisition of Access and the fund-raise. We will present our revised estimates and valuation following completion of the proposed acquisition, which we anticipate will conclude by early July 2023.

Healthcare equipment

7 June 2023

Price **A\$0.038**

Market cap **A\$32m**

US\$0.66/A\$

Net cash (A\$m) at end-March 2023 0.9

Shares in issue 843.2m

Free float 79.6%

Code RSF, RSUF

Primary exchange ASX

Secondary exchange OTCQB

Share price performance



% 1m 3m 12m

Abs (24.0) (38.7) 2.7

Rel (local) (23.0) (37.0) 4.3

52-week high/low A\$0.07 A\$0.03

Business description

Respiri is an Australia-based medical device and SaaS company focused on respiratory health management through its integrated wheezo platform. The device is a breath sensor that works with the Respiri mobile applications to record data such as wheeze rates, breath recordings and other environmental factors and medication usage, which can be accessed by physicians in real time. wheezo received FDA clearance in March 2021 and launched in the US in December 2021. In May 2023, Respiri announced the acquisition of US RPM partner Access which, after deal closure, will make it one of the few RPM companies with its own IP (wheezo).

Next events

Access acquisition completion July 2023

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Acquisition of Access strategic to future plans

Potential to improve recurring RPM revenue by five- to 10-fold

Respiri's partnership with Access has been the lynchpin in growing its commercial footprint in the United States to date, with 10 healthcare clients signed, several of which are onboarding patients for wheezo prescriptions and RPM services (over 200 patients have been onboarded; 3,500 additional prospects in the pipeline). While Respiri and its differentiated respiratory device wheezo have been garnering significant market interest, management notes that patient onboarding has been slower than anticipated and we believe this to be one of the core reasons for Respiri to acquire its commercial partner in the United States. We also maintain that this acquisition accords Respiri multiple growth opportunities, including potential acceleration of new customer acquisition and patient onboarding with a more direct oversight of operations, as well as an increased monthly RPM annuity stream – US\$70–100 per patient per month versus US\$10–20 currently. This involves a broader coverage of RPM current procedural terminology (CPT) codes versus what the earlier business model entailed (see Exhibit 1). Note that RPM reimbursement in the United States is physician led (ie reimbursement is directed to the healthcare provider for providing the monitoring services), although since 2020 these services are allowed to be outsourced to third-party providers such as telehealth companies. These companies assist healthcare providers in implementing and running the RPM programme, eg with patient enrolment, monitoring, compliance and billing in return for a share of the reimbursement pie (as a pay-for-service fees). Whereas earlier Respiri was eligible to receive a proportion of the reimbursement under the CPT code 99454 (automated data transmission from the medical device to the provider's RPM platform), the acquisition of Access should allow it to tap the other RPM codes as well, increasing the potential annuity stream by five- to 10-fold. This should also allow the company to reach break-even at a much lower number of recurring patients – 9,000 versus 30,000 previously. Management anticipates reaching this target by H2 CY24. We see this as achievable, provided the revised business strategy is implemented and executed as per plan.

Exhibit 1: Relevant RPM reimbursement codes under the expanded scope



Remote patient monitoring CPT codes		
CPT 99453	Initial set-up and patient education on equipment (one-time fee).	US\$19.00
CPT 99454	Supply of devices, collection, transmission, and report/ summary of services to the clinician.	US\$50.00
CPT 99457	Remote physiologic monitoring services by clinical staff/MD/ QHCP first 20 cumulative minutes of RPM services over a 30-day period.	US\$48.00
CPT 99458	Remote physiologic monitoring services by clinical staff/MD/ QHCP for an additional cumulative 20 minutes of RPM services over a 30-day period.	US\$39.00

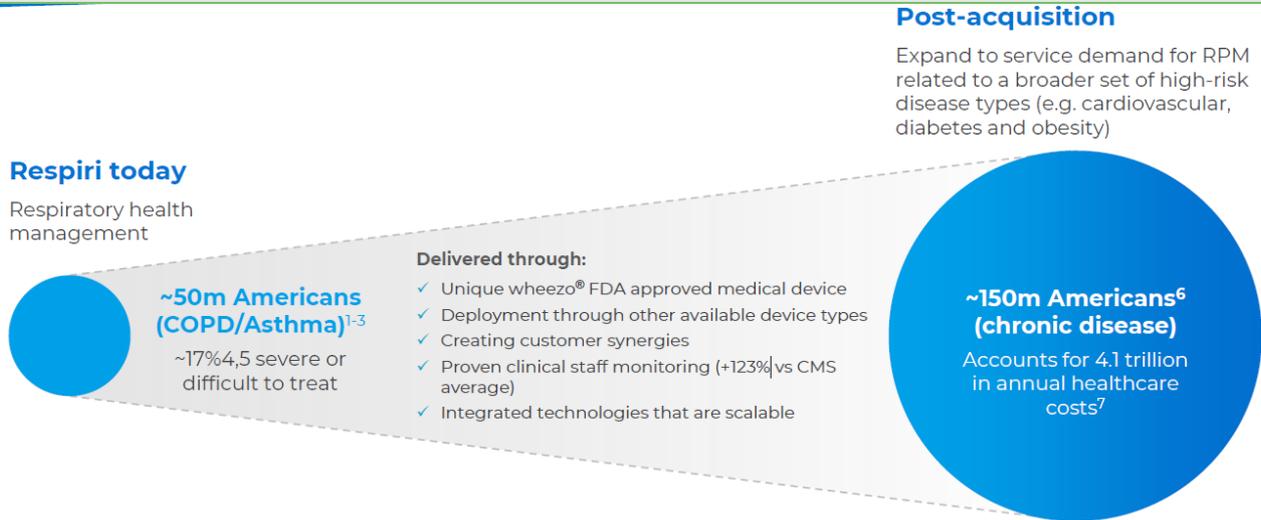
Source: Respiri investor presentation, June 2023

Further upside potential from chronic care management

Further leveraging the acquisition in the longer term, we expect Respiri to position itself as a diversified and differentiated RPM provider with an in-house intellectual property (wheezo), which we anticipate will be used to spearhead discussions with relevant stakeholders and hospital networks. We note that Access already has an established footprint in managing other chronic indications such as cardiovascular conditions, diabetes and obesity, and expect subsequent discussion to focus on the entire suite of services across indications, led by the wheezo programme. We believe that this can materially increase the revenue opportunity from each client

and potentially generate customer stickiness for Respi. According to the company, the acquisition will result in a threefold expansion of its US addressable market, from the current c 50 million asthma/ chronic obstructive pulmonary disease (COPD) patients to c 150 million including other chronic indications currently tracked and monitored under RPM programmes (see Exhibit 2).

Exhibit 2: Post-acquisition growth in addressable market



Source: Respi investor presentation, June 2023. Note: 1. CDC. COPD (accessed 29 Nov 2022). 2. CDC. Asthma (accessed 29 Nov 2022). 3. May S & Li J. Allergy Asthma Proc. 2015. 4. YooJ, et al. Aust J Gen Pract. 2019. 5. BednarekM, et al. Thorax. 2008. 6. <https://www.rand.org/blog/rand-review/2017/07/chronic-conditions-in-america-price-and-prevalence.html>. 7. <https://ncoa.org/article/get-the-facts-on-chronic-disease-self-management>

A broader coverage of chronic conditions should also allow Respi to become eligible for reimbursement under the CCM codes, which involve care coordination and management for patients with co-morbidities or multiple chronic conditions (Exhibit 3). According to the US Centres for Disease Control and Prevention, over 50% of the US adult population has at least one chronic condition with c 27% of the population having multiple co-morbidities. This figure stands at 47% for the population over the age of 55.

Exhibit 3: Incremental revenue opportunity from potential CCM services

Chronic care monitoring CPT codes		
CPT 99490	CCM services by clinical staff/MD/ QHCP first 20 cumulative minutes of RPM services over a 30-day period.	US\$62.00
CPT 99439	CCM services by clinical staff/MD/ QHCP for an additional cumulative 20 minutes of RPM services over a 30-day period.	US\$47.00

Source: Respi investor presentation, June 2023

We also believe that access to real-world data from a broader number of disease areas should allow Respi to develop more robust artificial intelligence driven algorithms and programmes over and above those used with wheezo to detect abnormal breath sounds, which should aid in developing improved products and services in the future for the company.

The proposed acquisition will be headed by Respi’s newly appointed head of US business and chief commercial officer, William Sigsbee, with Access continuing to operate under its own brand and workforce.

Deal economics – a c A\$4.5m priced tag...

Total acquisition consideration for the deal has been pegged at US\$3m (A\$4.5m) to be paid in three tranches:

1. Upfront payment of US\$1.25m at completion of the proposed transaction.
2. US\$0.25m payable three months after deal closure.

3. Up to US\$1.5m payable 12 months post deal closure contingent on RPM patient enrolment exceeding 6,000 per month.

The transaction is subject to conditions, including Respi raising a minimum of US\$2.5m in funding. We believe that this milestone-based payment reduces the financing risk associated with the deal by spreading out the payment over a period of time. Access currently has 10 healthcare customers, including from large healthcare providers and smaller primary care physician clinics. In addition, management has indicated that a further six potential contracts are in the advanced stages of discussion, with several others in the pipeline.

...funded through a A\$6.5m capital raise

Respi plans to fund the acquisition, US commercial roll-out and near-term working capital requirements through a A\$6.5m fund-raise. This includes convertible notes worth A\$4.5m to a US-based institutional investor, Obsidian Global Partners (non-binding term sheet signed). In addition, Respi aims to raise another A\$2m under a share purchase plan (SPP), with each shareholder entitled to subscribe for up to A\$30k worth of shares. The offer will include one attached free option for every two shares subscribed (offer closure expected by 20 June 2023, with the new shares entering circulation by 27 June).

The pay-out for the A\$4.5m convertible note to Obsidian Global will be made in two tranches of A\$2.5m (upfront) and A\$2m (subject to mutual agreement and shareholder approval). Tranche one of the convertible notes will be issued after the signing of the definitive document. The notes will have a face value of US\$1.15/unit with the face value on the remaining balance rising by 10% after 12 months. The maturity date will be 36 months from the date of issue (June 2026). The conversion price will be fixed at 30% premium to the volume weighted average price (VWAP) in the five days prior to the execution of the definitive document. If the VWAP after 90 days is lower than the fixed conversion price, Respi will be required to redeem a specified number of convertible notes, either through cash payment or by issuing shares at a 10% discount to the average of the lowest five daily VWAPs in the 15 days prior to the notice date. Conversely, Obsidian Global would be bound to convert 50% of the remaining convertible notes if any month's VWAP is a 75% premium to the fixed conversion price. This will be conditional on the average trading volume over this period being at least A\$50,000 per day. The maximum number of shares to be issued on conversion of tranche one will be 117.8m shares (without needing shareholder approval). Obsidian Global will be entitled to a 25% option coverage as part of the deal (strike price of A\$0.0650/unit).

Valuation

We adjust our valuation for the latest available net cash figure at end-March 2023 (A\$0.9m) while keeping our underlying assumptions unchanged as of now, pending completion of the acquisition of Access and the concurrent A\$6.5m fund-raise. Our valuation remains virtually unchanged at A\$164.2m (A\$165.5m previously) or A\$0.2/share. We will present our revised estimates and valuation following completion of the acquisition and fund-raise, which we anticipate by early July 2023.

Exhibit 4: Respi risk-adjusted NPV

Product	Indication	Geography	Clinical stage	Launch	Peak	Peak sales (US\$m)	NPV (A\$m)	Probability	rNPV (A\$m)	rNPV/share* (A\$)
wheezo	Asthma and COPD	United States	FDA 510(k) clearance	2022	2035	108.4	163.3	100%	163.3	0.19
Net cash at end-March 2023							0.9	100%	0.9	0.00
Valuation							164.2		164.2	0.20

Source: Edison Investment Research. Note: *Shares outstanding = 843.2m (excluding shares to be issued under the June 2023 SPP offer).

Exhibit 5: Financial summary

	A\$'000s	2021	2022	2023e	2024e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Year-end June		IFRS	IFRS	IFRS	IFRS
Revenue		1,436	772	1,712	5,872
Cost of Sales		(1,263)	(259)	(134)	(541)
Gross Profit		173	513	1,578	5,331
R&D expenses		(1,387)	(1,463)	(878)	(1,094)
Sales & marketing expenses		(2,185)	(917)	(229)	(809)
General & corporate expenses		(5,032)	(4,371)	(4,630)	(4,508)
EBITDA		(8,432)	(6,238)	(4,159)	(1,079)
Depreciation		(80)	(82)	(40)	(26)
Amortisation		0	0	0	0
Operating Profit (before amort. and except.)		(8,512)	(6,320)	(4,199)	(1,105)
Intangible Amortisation		0	0	0	0
Share-based payments		(2,530)	(311)	(289)	(303)
Exceptionals		0	0	0	0
Operating Profit		(11,042)	(6,631)	(4,487)	(1,409)
Net Interest		1	7	2	1
Profit Before Tax (norm)		(8,510)	(6,313)	(4,197)	(1,105)
Profit Before Tax (reported)		(11,040)	(6,624)	(4,485)	(1,408)
Tax		0	0	0	0
Profit After Tax (norm)		(8,510)	(6,313)	(4,197)	(1,105)
Profit After Tax (reported)		(11,040)	(6,624)	(4,485)	(1,408)
Average Number of Shares Outstanding (m)		699.1	728.6	823.1	842.4
EPS - normalised fully diluted (c)		(1.22)	(0.87)	(0.51)	(0.13)
Dividend per share (c)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		162	83	60	51
Intangible Assets		0	0	0	0
Tangible Assets		162	83	60	51
Investments		0	0	0	0
Current Assets		8,945	4,123	2,788	3,466
Stocks		537	2,651	2,262	2,520
Debtors		136	50	112	383
Cash		7,973	1,217	210	359
Other		299	204	204	204
Current Liabilities		(1,467)	(1,198)	(871)	(948)
Creditors		(1,295)	(790)	(674)	(751)
Short term borrowings		0	0	0	0
Other current liabilities		(172)	(408)	(198)	(198)
Long Term Liabilities		(71)	0	0	(2,000)
Long term borrowings		0	0	0	(2,000)
Other long term liabilities		(71)	0	0	0
Net Assets		7,570	3,008	1,976	568
CASH FLOW					
Operating Cash Flow		(7,339)	(8,478)	(4,444)	(1,834)
Net Interest		1	7	2	1
Tax		0	0	0	0
Capex		(54)	(2)	(17)	(18)
Acquisitions/disposals		0	0	0	0
Financing		12,533	1,639	3,454	0
Dividends		0	0	0	0
Net Cash Flow		5,141	(6,834)	(1,005)	(1,851)
Opening net debt/(cash)		(2,835)	(7,973)	(1,217)	(210)
Other		(3)	78	(2)	(1)
Closing net debt/(cash)		(7,973)	(1,217)	(210)	1,641

Source: Company accounts, Edison Investment Research

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