

4DMedical

Pricing step-change

With the timing of the Philips reseller agreement weighing on investors, we believe 4DX's improving US commercialisation trajectory is being underappreciated. The company's CT LVAS product has been granted reimbursement at US\$650 per scan – well ahead of expectations on both timing and quantum (2.2x XV LVAS reimbursement). This represents a step-change in 4DX's unit economics and is likely to see CT LVAS repositioned as its core/front-line screening product (underpinned by higher reimbursement, broader CT utilisation tailwinds). This translates to a larger US revenue opportunity (OMLe VA alone now >US\$1.5b) and a potentially expedited pathway to FCF break-even (remains predicated on commercial roll-out within VA). With the Philips reseller agreement imminent (May-Jun), pressure continues to mount on the VA to deploy PACT Act funding (US\$280b over 10yrs) and 4DX remains uniquely positioned to capitalise.

CT LVAS reimbursement drives pricing higher

The American Medical Association (AMA) has determined that two existing Category III CPT codes (0721T & 0722T) can be used for reimbursement of CT LVAS in the US. These codes attract Medicare reimbursement of US\$650 per scan and provide access to CT LVAS to >66m people across >4k Medicare-certified hospitals in the US. Importantly, this serves as a benchmark that other payors will use when setting their own pricing (e.g. VA, commercial insurers). Unlike XV LVAS reimbursement (US\$299 per scan) which effectively bundles the underlying X-ray fluoroscopy procedure, providers will be separately reimbursed for CT scans. Leveraging this, 4DX now has more pricing headroom to allocate margin out across its value chain (e.g. providers, Philips) and further enhance its value proposition.

Pressure on the VA to deploy PACT Act funding

The VA has been 'strongly encouraged' to "continue its efforts to identify and use in clinical practice non-invasive FDA-approved screening technologies that save Veterans from invasive procedures such as surgical lung biopsies that are often required to establish a diagnosis." We are now 62 days through the VA's 90 day window to report back to Congress with action on implementation.

Maintain Spec Buy, Target price \$1.20 (unchanged)

We value 4DX at \$1.20ps using a DCF methodology (WACC 10.7%, TGR 2.5%) and maintain our Speculative Buy rating. We have tweaked US volume and price assumptions, with higher pricing offsetting tempered near-term scan volumes.

| Year-end June (\$) | FY22A | FY23A | FY24E | FY25E | FY26E |
|-----------------------|--------|--------|--------|--------|-------|
| Revenue (\$m) | 1.1 | 0.7 | 4.0 | 22.6 | 60.1 |
| EBITDA (\$m) | (22.9) | (28.9) | (27.9) | (20.4) | 2.3 |
| EBIT (\$m) | (24.4) | (31.4) | (30.9) | (23.8) | (3.0) |
| Reported NPAT (\$m) | (24.6) | (31.4) | (31.5) | (22.6) | (2.6) |
| Reported EPS (c) | (7.7) | (9.6) | (7.8) | (5.4) | (0.6) |
| Normalised NPAT (\$m) | (24.6) | (31.4) | (29.1) | (22.6) | (2.6) |
| Normalised EPS (c) | (7.7) | (9.6) | (7.2) | (5.4) | (0.6) |
| Dividend (c) | - | - | - | - | - |
| Net Yield (%) | - | - | - | - | - |
| Franking (%) | - | - | - | - | - |
| Normalised ROE (%) | - | - | - | - | - |

Source: OML, Iress, 4Dmedical Limited

Last Price

A\$0.56

Target Price

A\$1.20

Recommendation

Speculative Buy

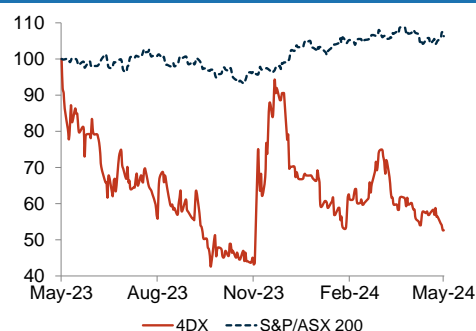
Risk

Higher

Health Care Technology

| | |
|-------------------------------|-------------|
| ASX Code | 4DX |
| 52 Week Range (\$) | 0.45 - 1.00 |
| Market Cap (\$m) | 210.6 |
| Shares Outstanding (m) | 379.4 |
| Av Daily Turnover (\$m) | 0.3 |
| 3 Month Total Return (%) | -14.0 |
| 12 Month Total Return (%) | -47.4 |
| Benchmark 12 Month Return (%) | 6.3 |
| NTA FY24E (¢ per share) | 0.5 |
| Net Cash FY24E (\$m) | 35.3 |

Relative Price Performance



Source: FactSet

Consensus Earnings

| | FY24E | FY25E |
|-----------------|--------|--------|
| NPAT (C) (\$m) | (29.3) | (22.6) |
| NPAT (OM) (\$m) | (29.1) | (22.6) |
| EPS (C) (c) | (7.5) | (5.7) |
| EPS (OM) (c) | (7.2) | (5.4) |

Source: OML, Iress, 4Dmedical Limited

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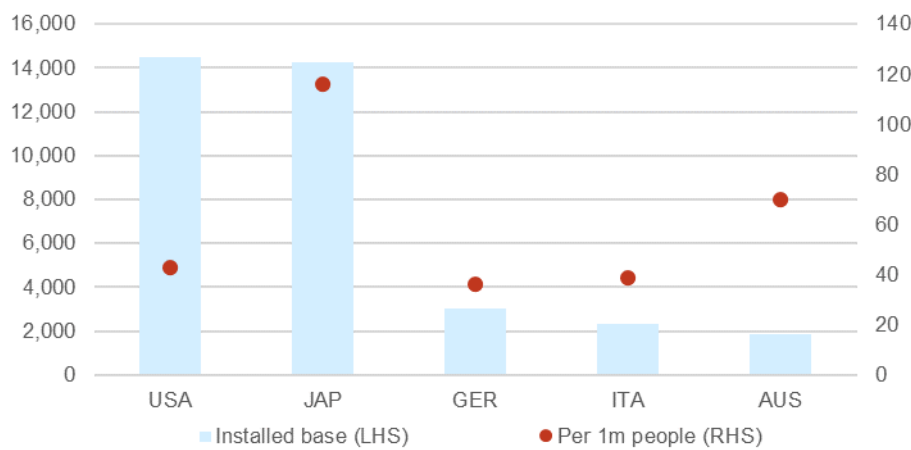
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4DX gains reimbursement for CT LVAS

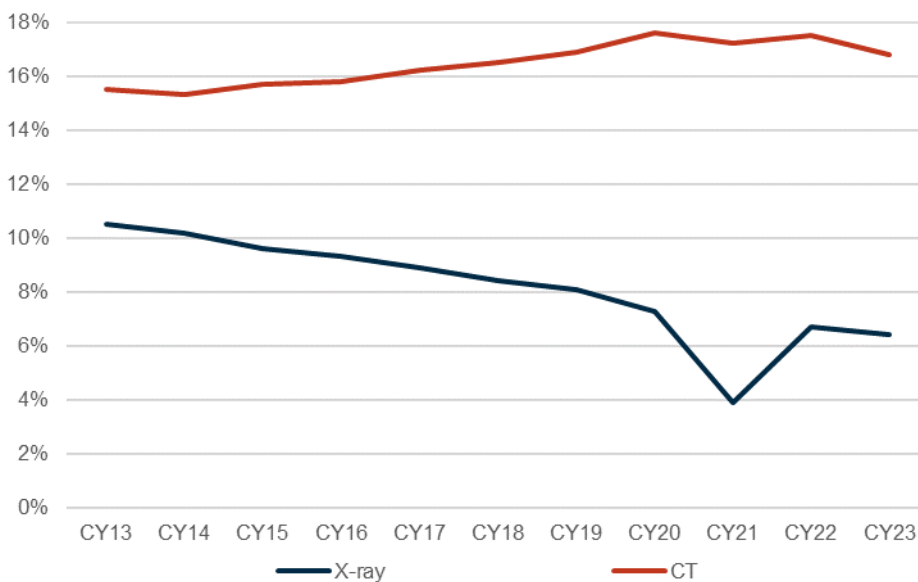
- The American Medical Association (AMA) has determined that two existing Category III CPT codes (0721T & 0722T) can be used for reimbursement of CT LVAS in the US. These codes attract Medicare reimbursement of US\$650 per scan and provide access to CT LVAS to >66m people across >4k Medicare-certified hospitals in the US.
- Importantly, this serves as a benchmark that other payors will use when setting their own pricing (e.g. VA, commercial insurers). Unlike XV LVAS reimbursement (US\$299 per scan) which effectively bundles the underlying X-ray fluoroscopy procedure, providers will be separately reimbursed for CT scans. Leveraging this, 4DX now has more pricing headroom to allocate margin out across its value chain (e.g. providers, Philips) and further enhance its value proposition.
- We note that the CT scanner installed base in the US is approaching 15k units and that there has been utilisation tailwinds over the last decade relative to X-ray. The largest owner-operator of imaging centres in the US (RadNet) has seen CT grow from 15% to 17% of its revenue mix over the last decade, while X-ray has fallen from 11% to 6% (see charts below).

Figure 1: CT scanners globally – US has the largest installed base (OMLe)



Source: OECD data, US Census Bureau, OMLe

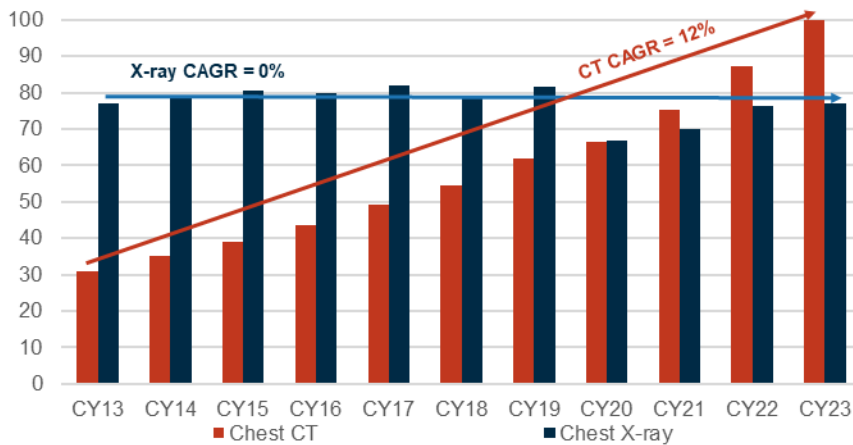
Figure 2: RadNet revenue mix – CT utilisation tailwinds relative to X-ray



Source: Company data, OML

- We note that these utilisation trends are even more pronounced in Australia, isolating Chest CTs vs Chest X-rays in the Medicare data.

Figure 3: Chest CTs vs X-rays in Australia – Medicare benefits paid (A\$m)



Source: Medicare, OML

- This reimbursement update represents a step-change in 4DX’s unit economics and is likely to see CT LVAS repositioned as its core/front-line screening product (underpinned by higher reimbursement, broader CT utilisation tailwinds). This translates to a larger US revenue opportunity (OMLe VA alone now >US\$1.5b) and a potentially expedited pathway to FCF break-even (remains predicated on commercial roll-out within VA).

Figure 4: Assessing updated VA TAM with CT LVAS positioned as lead modality

| US\$ | Mix | Patients | Net price | Revenue |
|--------------------------------|-------------|------------------|------------|----------------------|
| CT LVAS | 75% | 3,000,000 | 550 | 1,650,000,000 |
| XV LVAS | 25% | 1,000,000 | 250 | 250,000,000 |
| TAM | 100% | 4,000,000 | 475 | 1,900,000,000 |
| 4DX revenue opportunity | | | 380 | 1,520,000,000 |

Source: OMLe

Valuation and forecast changes

We have tweaked US volume and price assumptions, with higher pricing offsetting tempered near-term scan volumes. We present key forecast changes below with the net impact on our valuation/TP negligible.

Figure 5: Key forecast changes

| Earnings revisions | Units | FY24E | | | FY25E | | | FY26E | | |
|--------------------|-------|---------|---------|----------|--------|---------|----------|-------|-------|--------|
| | | Prior | New | % chg | Prior | New | % chg | Prior | New | % chg |
| Revenue | \$m | 4 | 4 | -10% | 26 | 23 | -15% | 58 | 60 | 4% |
| EBITDA | \$m | -28 | -28 | 2% | -17 | -20 | -19% | 0 | 2 | -1203% |
| EBIT | \$m | -31 | -31 | 2% | -21 | -24 | -12% | -5 | -3 | 40% |
| PBT | \$m | -30 | -29 | 2% | -20 | -23 | -13% | -4 | -3 | 42% |
| NPAT | \$m | -30 | -29 | 2% | -20 | -23 | -13% | -4 | -3 | 42% |
| EPS | cps | -7.3 | -7.2 | 2% | -4.8 | -5.4 | -13% | -1.1 | -0.6 | 42% |
| DPS | cps | 0.0 | 0.0 | nm | 0.0 | 0.0 | nm | 0.0 | 0.0 | nm |
| EBITDA margin | % | -641.8% | -700.1% | -5831bps | -64.8% | -90.4% | -2563bps | 0.3% | 3.8% | 354bps |
| EBIT margin | % | -713.1% | -776.7% | -6359bps | -80.0% | -105.5% | -2553bps | -8.5% | -5.0% | 358bps |
| NPAT margin | % | -671.9% | -731.0% | -5908bps | -75.7% | -100.4% | -2470bps | -7.7% | -4.3% | 341bps |

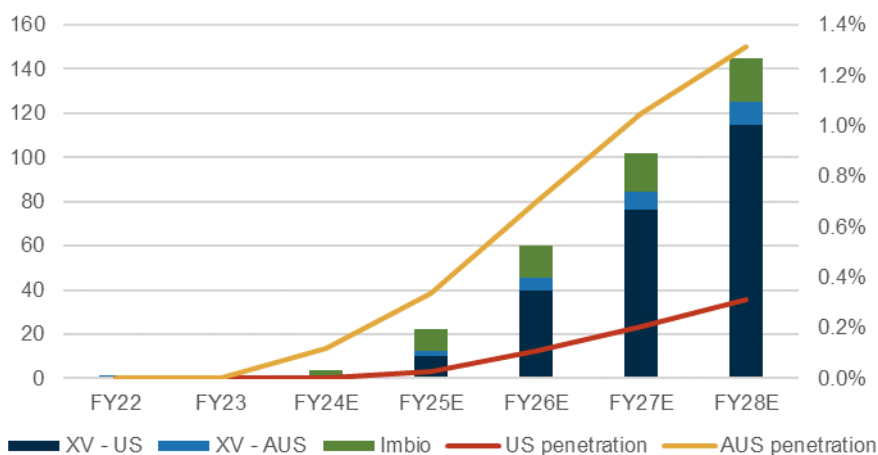
Source: OMLe

We value 4DX at \$1.20ps (unchanged) using a DCF methodology (WACC 10.7%, TGR 2.5%) and maintain a Speculative Buy rating. We assign a Spec Buy recommendation as we expect the stock's total return to >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 (per Ords recommendation definitions).

Our DCF valuation is driven by:

- FY24E revenue of A\$4m, increasing to A\$23m in FY25E with an 86% 3yr revenue CAGR thereafter. Longer-term we model 10% revenue growth noting our TAM penetration rates remain modest even in outer-years (i.e. US penetration of 0.3% in FY28E);
- Long-term GMs of 90% and EBITDA margins of 38%;
- Minimal levels of working capital and capex (3% of sales) long-term per 4DX's capital light business model;
- Our WACC of 10.7% in underpinned by: 1) cost of equity 12.2%; 2) risk free rate of 4%; and, 3) target gearing of 20%; and,
- Our terminal growth rate for 4DX is 2.5%.

Figure 6: 4DX - Updated revenue forecasts



Source: OMLe

4Dmedical Limited

| PROFIT & LOSS (A\$m) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------|---------------|---------------|---------------|---------------|--------------|
| Revenue | 1.1 | 0.7 | 4.0 | 22.6 | 60.1 |
| Operating costs | (24.0) | (29.6) | (31.8) | (42.9) | (57.8) |
| Operating EBITDA | (22.9) | (28.9) | (27.9) | (20.4) | 2.3 |
| D&A | (1.5) | (2.6) | (3.0) | (3.4) | (5.3) |
| Non-operating items | - | - | - | - | - |
| EBIT | (24.4) | (31.4) | (30.9) | (23.8) | (3.0) |
| Net interest | (0.1) | 0.3 | 1.9 | 1.1 | 0.4 |
| Pre-tax profit | (24.5) | (31.1) | (29.0) | (22.6) | (2.6) |
| Net tax (expense) / benefit | (0.0) | (0.3) | (0.0) | - | - |
| Significant items/Adj. | - | - | (2.4) | - | - |
| Associate NPAT | - | - | - | - | - |
| Normalised NPAT | (24.6) | (31.4) | (29.1) | (22.6) | (2.6) |
| Reported NPAT | (24.6) | (31.4) | (31.5) | (22.6) | (2.6) |
| Normalised dil. EPS (cps) | (7.7) | (9.6) | (7.2) | (5.4) | (0.6) |
| Reported EPS (cps) | (7.7) | (9.6) | (7.8) | (5.4) | (0.6) |
| Effective tax rate (%) | (0.2) | (1.0) | (0.2) | - | - |
| DPS (cps) | - | - | - | - | - |
| DPS (cps) | - | - | - | - | - |
| Dividend yield (%) | - | - | - | - | - |
| Payout ratio (%) | - | - | - | - | - |
| Franking (%) | - | - | - | - | - |
| Diluted # of shares (m) | 317.8 | 326.8 | 406.3 | 417.7 | 417.7 |

| CASH FLOW (A\$m) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|---------------|---------------|---------------|---------------|--------------|
| EBITDA incl. adjustments | (60.4) | (66.0) | (64.4) | (39.7) | 5.7 |
| Change in working capital | 22.6 | 27.9 | 30.4 | 17.7 | (6.9) |
| Net Interest (paid)/received | 12.6 | 15.4 | 7.9 | 1.1 | 0.4 |
| Income tax paid | - | - | - | - | - |
| Other operating items | - | - | - | - | - |
| Operating Cash Flow | (25.3) | (22.7) | (26.1) | (20.9) | (0.8) |
| Capex | (3.1) | (0.7) | (0.8) | (1.1) | (1.8) |
| Acquisitions | - | - | (38.7) | - | - |
| Other investing items | (0.4) | (0.9) | (0.4) | - | - |
| Investing Cash Flow | (3.5) | (1.6) | (40.0) | (1.1) | (1.8) |
| Inc/(Dec) in equity | - | 45.0 | 35.0 | - | - |
| Inc/(Dec) in borrowings | - | - | - | - | - |
| Dividends paid | - | - | - | - | - |
| Other financing items | (1.0) | (2.2) | (3.1) | (1.1) | (1.1) |
| Financing Cash Flow | (1.0) | 42.7 | 31.9 | (1.1) | (1.1) |
| FX adjustment | - | - | - | - | - |
| Net Inc/(Dec) in Cash | (29.8) | 18.5 | (34.2) | (23.1) | (3.7) |

| BALANCE SHEET (A\$m) | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 51.1 | 69.6 | 35.3 | 12.2 | 8.6 |
| Receivables | 2.1 | 0.8 | 0.9 | 4.0 | 9.9 |
| Inventory | 0.0 | 0.7 | 0.2 | 0.2 | 0.2 |
| Other current assets | 5.6 | 7.5 | 11.6 | 11.6 | 11.6 |
| PP & E | 5.5 | 5.5 | 4.7 | 3.9 | 3.2 |
| Investments | - | - | - | - | - |
| Financial Assets | - | - | - | - | - |
| Intangibles | 5.1 | 5.1 | 73.2 | 71.7 | 68.9 |
| Other non-current assets | 4.9 | 3.8 | 3.3 | 3.3 | 3.3 |
| Total Assets | 74.3 | 92.9 | 129.2 | 107.0 | 105.7 |
| Short term debt | 1.1 | 0.9 | - | - | - |
| Payables | 7.2 | 12.8 | 8.7 | 9.1 | 10.4 |
| Other current liabilities | 1.3 | 3.3 | 26.6 | 26.6 | 26.6 |
| Long term debt | 5.1 | 4.2 | - | - | - |
| Other non-current liabilities | 0.1 | 0.2 | 18.7 | 18.7 | 18.7 |
| Total Liabilities | 14.8 | 21.5 | 54.0 | 54.4 | 55.7 |
| Total Equity | 59.5 | 71.5 | 75.2 | 52.6 | 50.0 |
| Net debt (cash) | (44.9) | (64.4) | (35.3) | (12.2) | (8.6) |

Speculative Buy

| DIVISIONS | 2022A | 2023A | 2024E | 2025E | 2026E |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue (A\$m) | | | | | |
| LVAS revenue | 1.1 | 0.7 | 0.9 | 12.6 | 45.3 |
| Imbio revenue | - | - | 3.0 | 10.0 | 14.9 |
| Other income | 12.3 | 13.2 | 13.8 | 10.0 | 6.0 |
| Total Revenue | 13.4 | 13.9 | 17.8 | 32.6 | 66.1 |

| KEY METRICS (%) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue growth | 385.7 | (31.8) | 453.4 | 466.8 | 166.6 |
| EBITDA margin | - | - | - | - | 3.8 |
| OCF/EBITDA | 164.9 | 131.9 | 122.1 | 108.0 | - |
| EBIT margin | - | - | - | - | - |
| Return on assets | - | - | - | - | - |
| Return on equity | - | - | - | - | - |

| VALUATION RATIOS (x) | 2022A | 2023A | 2024E | 2025E | 2026E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Reported P/E | - | - | - | - | - |
| Price To Free Cash Flow | - | - | - | - | - |
| Price To NTA | 3.0 | 2.5 | 102.3 | - | - |
| EV / EBIT | - | - | - | - | - |

| LEVERAGE | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| ND / (ND + Equity) (%) | (306.6) | (917.6) | (88.6) | (30.4) | (20.7) |
| Net Debt / EBITDA (%) | 195.6 | 223.3 | 126.8 | 60.0 | (370.4) |
| EBIT Interest Cover (x) | - | 100.2 | 16.6 | 20.7 | 7.8 |
| EBITDA Interest Cover (x) | - | 92.0 | 15.0 | 17.8 | - |

| SUBSTANTIAL HOLDERS | m | % |
|--------------------------------|----------|----------|
| Velocimetry Consulting Pty Ltd | 65.7 | 17.3% |
| Norges Bank | 8.7 | 2.3% |
| Ryder Inn Fund LP | 6.3 | 1.7% |

| VALUATION | |
|------------------------------|-------------|
| Cost of Equity (%) | 12.2 |
| Cost of debt (after tax) (%) | 6.5 |
| WACC (%) | 10.7 |

| | |
|--|-------|
| Target Price Method | DCF |
| Target Price (\$) | 1.20 |
| Valuation disc. / (prem.) to share price (%) | 116.2 |

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Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

| | |
|------------------------|---|
| 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, historical 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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