

## EVOLVING TO MEET AN UNDERSERVED MARKET

- Nuheara Limited (NUH) has positively evolved its product suite to be focussed on a clinical, yet stylish hearable solution catering to the underserved mild to moderate hearing loss market. The Company has recently won a tender to participate in an NHS contract, which has the opportunity to generate up to A\$60m in revenue per annum. While a positive contract, we believe it goes to justifying the current market capitalisation rather than being a catalyst for the share price in the near-term and maintain our HOLD recommendation. However, traction in this contract in the next 12 months could be a key catalyst for the Company which may allow it to gain significant market share via cross selling and additional government contracts and re-rate higher.**
- Improved Product Suite:** NUH has bolstered its product suite with the additional of IQbuds BOOST, IQstream TV and the upcoming LiveIQ and IQbuds MAX products. These products are an evolution to its current retail focussed smart hearable ear buds product, and allow it to become a quasi-medical device targeted at mild to moderate hearing loss. This is highly positive as it allows the product to be differentiated from the other wireless earbuds, and services a current underpenetrated market.
- Underserved Addressable Market:** A vast majority of hearing loss is in the mild to moderate hearing loss range (75%) while it is currently very under serviced by products in the market. (<10%) This is largely due to the clinical need to get a hearing test which is a prohibitive barrier (addressed via the proprietary Ear ID of NUH) and the historical costs of hearing aid products which range in the thousands (again addressed by NUH, with a more affordable product). NUH has provided some figures of the global addressable market of \$6.3bn (at 30% penetration) for this segment.
- NHS Contract key in near-term:** The current biggest breakthrough for NUH was the recently announced government contract through the UK's NHS. It becomes the first hearable to be selected for a government program for hearing loss. The contract commences in April 2019, for an initial two-year period with provisions for a further two-year extension. The anticipated value for purchases made through the NHS for hearing device solutions to support this mild to moderate hearing category is circa £34.5m (A\$60m) in the first 12 months and £138m (A\$240m) for the full term of 48 months (if extended).
- Capital Position:** As at 30 September 2018, NUH had cash in the bank of \$5.0m and no debt. The Company also currently has a quarterly cash burn of c\$2.0m. In order to assist in the planned activities in the next 6 months, including increasing inventory levels for the IQbuds BOOST and supporting the NHS contract, NUH has recently returned to market (Dec18) to raise a further \$5.0m in capital at \$0.075/sh. Thus, we estimate that NUH should have c \$8.0m in cash at the end of December 2018.

Year End June 30	2017A	2018A	2019F	2020F	2021F
Reported NPAT (\$m)	(5.2)	(6.9)	(7.1)	2.6	3.1
Recurrent NPAT (\$m)	(5.2)	(6.9)	(7.1)	2.6	3.1
Recurrent EPS (cents)	(0.6)	(0.8)	(0.8)	0.3	0.3
EPS Growth (%)	na	na	na	na	22.3
PER (x)	(12.3)	(9.3)	(9.1)	26.9	22.0
PEG	na	na	na	na	1.0
EBITDA (\$m)	(4.8)	(7.4)	(7.1)	2.6	3.4
EV/EBITDA (x)	(12.6)	(7.5)	(8.2)	24.4	18.1
Free Cashflow	(7.6)	(10.7)	(7.8)	(0.7)	1.9
FCFPS (cents)	(0.8)	(1.2)	(0.9)	(0.1)	0.2
PFCF (x)	(8.5)	(6.0)	(8.3)	(104.5)	37.3

21 December 2018		
12mth Rating		HOLD
Price	A\$	0.07
Target Price	A\$	0.07
12mth Total Return	%	1.6
RIC: NUH.AX		BBG: NUH AU
Shares o/s	m	960.7
Free Float	%	50.0
Market Cap.	A\$m	69.2
Net Debt (Cash)	A\$m	-8.3
Net Debt/Equity	%	na
3mth Av. D. T'over	A\$m	0.263
52wk High/Low	A\$	0.14/0.05
2yr adj. beta		1.19
<b>Valuation:</b>		
Methodology		DCF
Value per share	A\$	0.07
<b>Analyst:</b> Jon Scholtz		
<b>Phone:</b> (+61) 8 9225 2836		
<b>Email:</b> jscholtz@psl.com.au		

### 12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	14.3	(12.2)	28.6
Rel. S&P/ASX 300	14.9	(3.6)	34.9

## IQBUDS BOOST

NUH has bolstered its product suite with the additional of IQbuds BOOST, IQstream TV and the upcoming LiveIQ and IQbuds MAX products. These products are an evolution to its current retail focussed smart hearable ear buds product, the IQbuds. Its first run of 2,500 IQbuds BOOST products sold out quickly, which helped as a proof of retail concept.

IQbuds BOOST is in our opinion a correct step for the Company, which will see it directly target mild to moderate hearing loss with a clinically proven product. It will target this channel via a clinical approach, selling through specific channels such as health services and, interestingly, through optometrists. The latter should allow optometrists to expand the range of services and products offered from optical healthcare to a combination of audio and visual health.

The IQbuds BOOST provide smart personalised hearing, and includes the proprietary Ear ID which is a clinical grade hearing assessment that automatically calibrates the earbuds to the individuals unique hearing profile. They allow for the basics of earbuds such as high fidelity audio, hands free calling and tap touch controls, but also have further implemented smart features which allow for directional control of audio, the ability to augment and equalise environmental sounds and customisable streaming of TV audio.

The buds are stated to be sweat and water resistant, fit in ear comfortably and have a long battery life (20 hours for on-the-go Bluetooth streaming and 32 hours of on-the-go hearings processing). A purchase comes with 2 buds, multiple eartips for fit, a charging case and cable and the App which powers the smarts (although we note the on-bud processor also does a fair bit of processing). The product is currently listed for sale at AU\$649 on the Nuheara Company website.

Figure 1: IQbuds BOOST

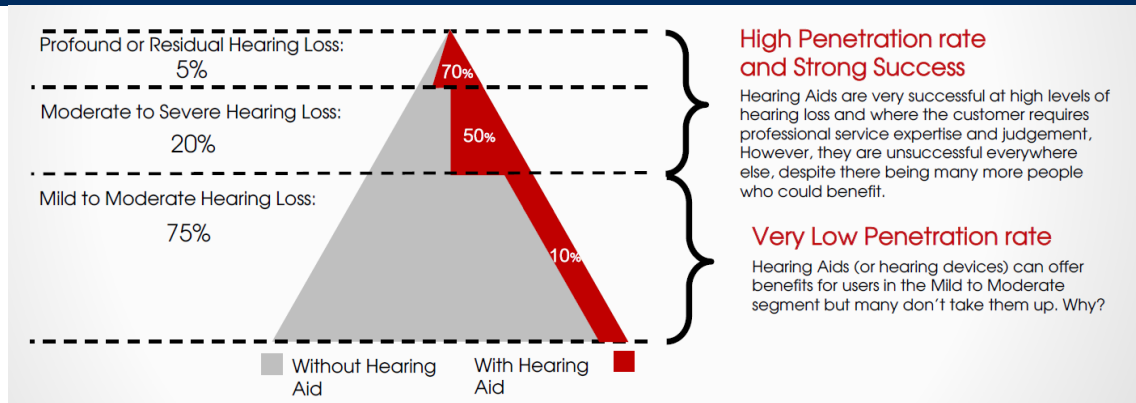


Source: Nuheara Limited

NUH is targeting the mild to moderate hearing loss segment of the market, allowing people to address this underserved medical issue in a modern and stylised way. It is entering the market in a segment that is not currently catered for from hearing aids (from higher levels of hearing loss). We view this segment much like reading spectacles, while not needed all the time for a visual stigma on a daily basis, they are used for enhancement of the individual user at a time of need or in certain circumstances.

As shown in the figure below, a vast majority of hearing loss is in the mild to moderate hearing loss range (75%) while it is currently very under serviced by products in the market. This is largely due to the clinical need to get a hearing test which is a prohibitive barrier (addressed via the proprietary Ear ID of NUH) and the historical costs of hearing aid products which range in the thousands (again addressed by NUH, with a more affordable product).

Figure 2: Hearing loss segments and market penetration



Source: Nuheara Limited

NUH has provided some figures of the potential addressable market (below), which shows the staggering opportunity of over \$2.5bn p.a at a market penetration of 30% in the US for hearables and hearing aids. Extrapolated for the global market derives an addressable market of \$6.3bn at 30% penetration. (The overall global market is \$20bn per annum). While these market penetration figures may currently seem unattainable and rather lofty, by using just a 1% market penetration (and the same calculations as below) it devices an opportunity to generate over \$200m in revenue p.a.

Figure 3: Total Addressable Market Penetration

Item	Assumptions
Market Penetration Potential	30%
US Population with mild to moderate loss	36,000,000
Addressable US population with mild/moderate hearing loss	10,800,000
Unit Average Selling Price (ASP)	\$300
Revenue potential	\$3,240,000,000
Hardware Purchase period or cycle (years)	3
Revenue potential - annual	\$1,080,000,000
25% compound sales to customers with good hearing	\$360,000,000
15% attachment rate for accessories	\$216,000,000
\$60 per user for software (annual) - \$5 per month	\$864,000,000
<b>Total US Market Potential Opportunity p.a.</b>	<b>\$2,520,000,000</b>
With US representing ~ 40% of total global market:	
<b>Total Global Market Potential Opportunity p.a.</b>	<b>\$6,300,000,000</b>

Source: Nuheara Limited

To further illustrate the gap in the market in which NUH is seeking to penetrate, the below figure shows the features of the IQbuds BOOST and NUH product suite against the current incumbent hearing aid technologies. The key take-aways are that with the NUH products, it would require a single trip to the store (or available online) and has an investment of under a thousand dollars while the traditional hearing aids route would require multiple days and speciality clinical appointments and a much steeper financial investment of over \$4,800.

People with mild to moderate hearing loss may thus not seek medical equipment and thus choose to rather live with the inconvenience. However, as NUH fits and satisfies this niche, it would likely need to educate the market and find novel ways to gain customers (which may work well through partnerships with optometrists).

Figure 4: NUH technology versus the incumbents

<u>Hearing Aids</u>			<u>Hearing Buds</u>		
	Audiologist			Nuheara App with Ear ID	
\$4,000 - \$14,000	Hearing Aids			Boost Hearing Buds	\$649
\$499	TV Streamer			Boost TV Streamer (In development)	\$199
\$299	Remote Microphone		-	Remote Microphone	Not Required
\$free	Remote App for volume control			Nuheara App for volume control	\$free
Time investment: Many days and visits Financial investment: \$4,800 to \$14,800			Time investment: Single visit to shop or buy online Financial investment: \$850		

Source: Nuheara Limited

NUH is aggressively pursuing this segment, and has secured partners such as Specsavers Optical Group, which it expects to be rolled-out over 2019 after being initially trialled in the Sussex (UK) specsavers store.

The retail expansion with Specsavers is a significant adjunct to the recent announcement regarding the successful entry of IQbuds BOOST™ into the UK's National Health Service ("NHS") hearing aid supply contract, commencing in April 2019. Specsavers is already a champion of the NHS – of its 17.3 million customers in the UK, 60% are from the NHS and the company is the largest private provider of free NHS digital hearing aids.

NUH also has sales channels with the likes of Hidden Hearing (Ireland), Sam Audio (South Korea), Vision Group (Italy), Acutis (France & Switzerland) and ADCO Medical Suppliers (USA) which gives it a global footprint and the opportunity (and scale via channels) to quickly ramp-up product interest and sales.



Figure 5: IQbuds BOOST display in Specsavers (Sussex UK)



Source: Nuheara Limited

## NATIONAL HEALTH SERVICES (NHS) OPPORTUNITY

The current biggest breakthrough for NUH was the recently announced government contract through the UK's NHS. It becomes the first hearable to be selected for a government program for hearing loss. It has been selected through a formal Tender process, to provide hearing solutions to adults and children with mild to moderate hearing loss.

The contract commences in April 2019, for an initial two-year period with provisions for a further two-year extension. The anticipated value for purchases made through the NHS for hearing device solutions to support this mild to moderate hearing category is circa £34.5m (A\$60m) in the first 12 months and £138m (A\$240m) for the full term of 48 months (if extended).

We believe the IQbuds BOOST to be well positioned to secure a large portion of this initial sales channel, but note that it is competing for sales and is thus not guaranteed to the A\$60m p.a in revenue or any of the revenue for that matter. NUH is also likely to split headline revenue with its distributor, Puretone Ltd, from any sales in this channel.

### About the NHS

The National Health Service (NHS) is the publicly funded national healthcare system for England and one of the four National Health Services for each constituent country of the United Kingdom. It is the largest single-payer healthcare system in the world. Primarily funded through the general taxation system and overseen by the Department of Health, NHS England provides free healthcare to all legal English residents, including hearing aids. More than 75% of all hearing aids provided in the UK are done so by the NHS.

## VALUE OF NHS OPPORTUNITY

The have derived a maximum value for this current NHS opportunity at \$62.6m at a gross profit level (excluding corporate and overheads) using the following assumptions:

- Length: 4 years
- Gross Revenue: \$60m per annum
- Revenue share to NUH: 66.6%
- Net Revenue (NUH): \$40 per annum
- Gross Profit margin: 50%
- Gross Profit: \$20m per annum

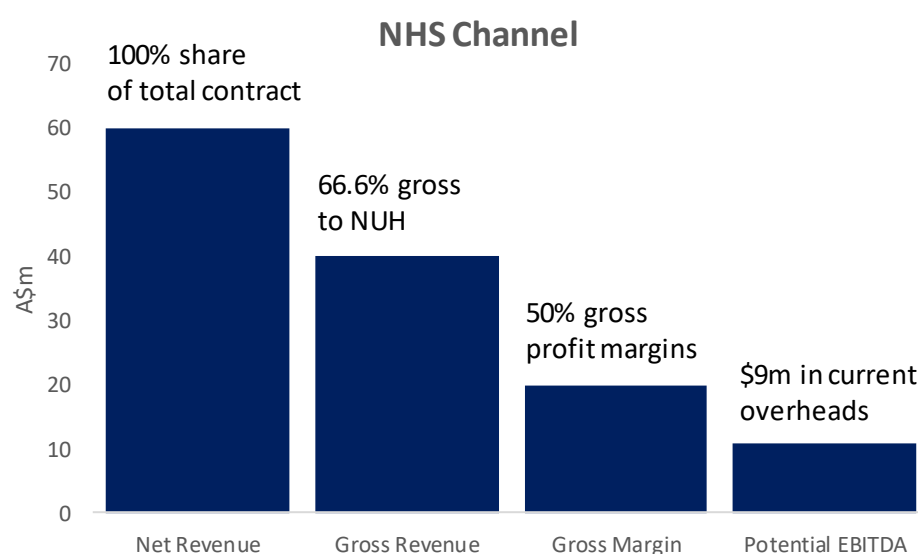
We note that the above assumes that NUH receives 100% of the stated revenue from NHS through the contract for the entirety of the 4 years, which is unlikely. And revenue share and margins have not been made public, thus our assumptions may prove to be optimistic.

Assuming current overheads were to remain stable at c\$9.0m per annum, EBITDA would increase to c\$11.0m which is vastly superior to the current EBITDA loss in FY18 of \$7.4m.

Using the above assumptions, NUH would need to secure 40% of the contracted value in gross revenue per annum to reach an EBITDA neutral position.

While this current NHS opportunity is a positive for the Company and its revenue generation potential, we believe it rather goes toward justifying the current market capitalisation of c\$70m than being market accretive at this point. However, further similar contracts in the UK and other geographies and positive cross-selling into the optical and retail channels could be highly positive and a catalyst for the share price (but traction of sales would need to first be proven).

Figure 6: NHS Channel flow



Source: Patersons Securities Limited

## FINANCIALS

NUH currently generates revenue from big box retail sales and online sales of its base IQbuds product. In FY18 it generated c\$5m in sales at a margin of close to 30%. We expect a slight increase in sales in FY19, given the larger product suite, but believe the major increase in sales is likely to occur in FY20 with the introduction of the NHS opportunity and the cross selling into Specsavers and the ramp-up of its global distribution channel.

### Base Case

In our base case, we have assumed continuous growth from the sale of the base IQbuds at a steady gross margin of 40%. We also assume NUH secures 50% of sales from the NHS channel and that the contract is continuously renewed (thus providing revenue for our 10 year forecast period and into the terminal value). We have not assumed revenue from the optical channel (such as Specsavers) and from the growing global distribution network as yet.

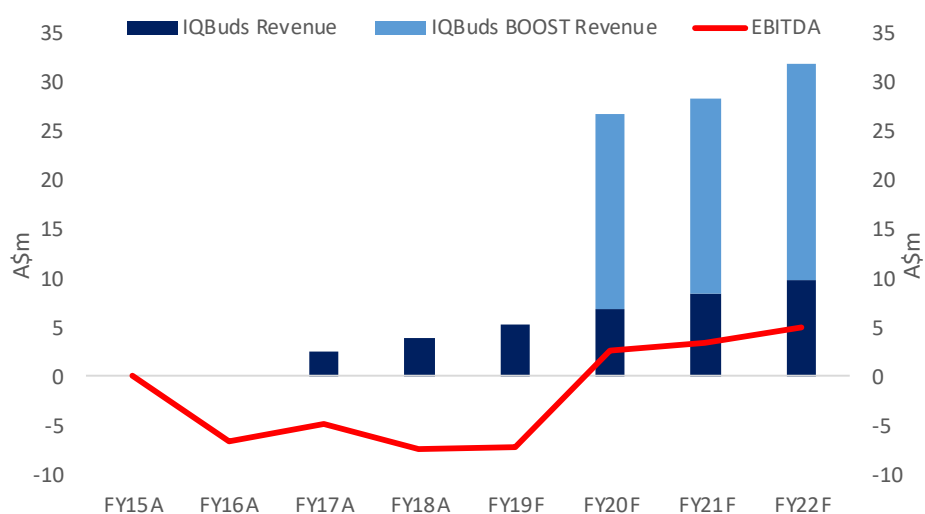
Figure 7: Base Case Financials

	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F	FY22F
<b>Revenue (A\$m)</b>	-	-	2.92	5.25	6.64	28.12	29.65	33.15
<i>Revenue Growth</i>			100%	80%	26%	324%	5%	12%
<b>Gross Profit (A\$m)</b>	-	-	(0.20)	1.59	2.14	12.73	13.34	14.94
<i>Gross Profit Margin</i>			-6.9%	30.3%	32.2%	45.3%	45.0%	45.1%
<b>EBITDA (A\$m)</b>	(0.00)	(6.70)	(4.84)	(7.42)	(7.14)	2.63	3.43	5.04
<i>EBITDA Margin</i>		-100%	-166%	-141%	-108%	9%	12%	15%
<b>NPAT (A\$m)</b>	(0.00)	(6.69)	(4.84)	(7.42)	(7.54)	2.18	2.87	4.42
<i>NPAT Margin</i>		-100%	-166%	-141%	-114%	8%	10%	13%

Source: Patersons Securities Limited

We have valued our base case at \$0.07/sh, which is inline with the current share price thus reaffirming our assumption that this contract mainly goes to justify the current market price rather being a catalyst for an increase in the share price in the near-term.

Figure 8: Base Case Revenue and EBITDA



Source: Patersons Securities Limited

## Bear Case

In our bear case, we have assumed continuous growth from the sale of the base IQbuds at a steady gross margin of 40% (as in our base case). However, we have assumed NUH secures only 25% of sales from the NHS channel. We have also not yet assumed revenue from the optical channel (such as Specsavers) and from the growing global distribution network. As shown below, revenue is significantly lower and EBITDA only approaches a neutral level in FY22.

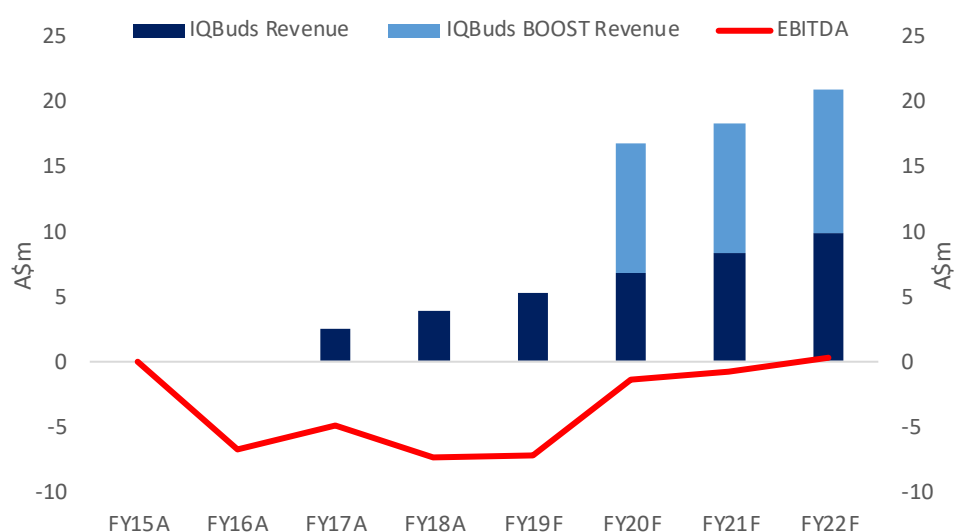
Figure 9: Bear Case Financials

	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F	FY22F
<b>Revenue (A\$m)</b>	-	-	2.92	5.25	6.64	18.13	19.66	22.16
<i>Revenue Growth</i>			100%	80%	26%	173%	8%	13%
<b>Gross Profit (A\$m)</b>	-	-	(0.20)	1.59	2.14	7.73	8.35	9.45
<i>Gross Profit Margin</i>			-6.9%	30.3%	32.2%	42.7%	42.5%	42.6%
<b>EBITDA (A\$m)</b>	(0.00)	(6.70)	(4.84)	(7.42)	(7.14)	(1.36)	(0.76)	0.26
<i>EBITDA Margin</i>		-100%	-166%	-141%	-108%	-8%	-4%	1%
<b>NPAT (A\$m)</b>	(0.00)	(6.69)	(4.84)	(7.42)	(7.54)	(1.81)	(1.30)	(0.35)
<i>NPAT Margin</i>		-100%	-166%	-141%	-114%	-10%	-7%	-2%

Source: Patersons Securities Limited

We have valued our bear case at \$0.025/sh, which is well below with the current share. This would be expected as the Company would need to raise further capital to continue operationally and an underperformance in the NHS contract may remove some of the market premium currently priced into the share price.

Figure 10: Bear Case Revenue and EBITDA



Source: Patersons Securities Limited



## Bull Case

In our bull case, we have assumed continuous growth from the sale of the base IQbuds at a steady gross margin of 40% (as in our base case). However, we have assumed NUH secures 75% of sales from the NHS channel. We have also not yet assumed revenue from the optical channel (such as Specsavers) and from the growing global distribution network. As shown below, revenue is significantly higher and EBITDA is highly positive from FY20 onward.

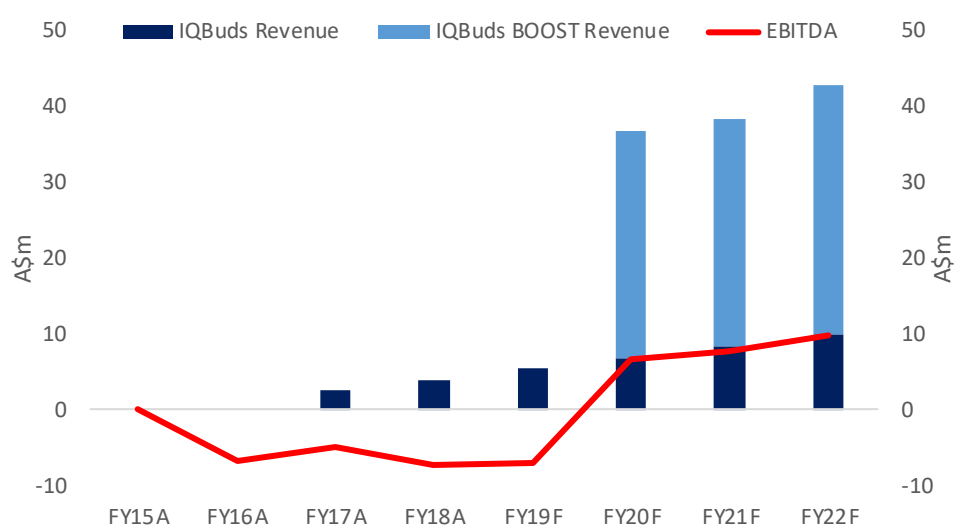
Figure 11: Bull Case Financials

	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F	FY22F
<b>Revenue (A\$m)</b>	-	-	2.92	5.25	6.64	38.11	39.64	44.14
<i>Revenue Growth</i>			100%	80%	26%	474%	4%	11%
<b>Gross Profit (A\$m)</b>	-	-	(0.20)	1.59	2.14	17.72	18.34	20.44
<i>Gross Profit Margin</i>			-6.9%	30.3%	32.2%	46.5%	46.3%	46.3%
<b>EBITDA (A\$m)</b>	(0.00)	(6.70)	(4.84)	(7.42)	(7.14)	6.62	7.62	9.81
<i>EBITDA Margin</i>		-100%	-166%	-141%	-108%	17%	19%	22%
<b>NPAT (A\$m)</b>	(0.00)	(6.69)	(4.84)	(7.42)	(7.54)	6.17	7.04	9.19
<i>NPAT Margin</i>		-100%	-166%	-141%	-114%	16%	18%	21%

Source: Patersons Securities Limited

We have valued our bear case at \$0.15/sh, which is well above with the current share. This would be expected as the Company would be generating a large level of EBITDA and cash at this point. But most importantly the market may assign it a premium as deep penetration into the NHS channel should provide confidence that the cross selling into the retail channel via optical should gain traction. We believe that proven traction in the sale via global distributors and via Specsavers to be the key to share price appreciation.

Figure 12: Bull Case Revenue and EBITDA



Source: Patersons Securities Limited

## 1% OF GLOBAL MARKET SCENARIO

Using the revenue assumed (\$200 per annum) from attaining 1% of the global mild to moderate hearing loss market, we have derived a scenario which highlights that significant upside available from the NUH product suite. We note that NUH has a global presence and distribution network and that traction in the NHS contract could help educate and market its IQbuds BOOST product to the wider global network. As shown below, revenue is significantly increased and, due to the relatively fixed basis of overheads, EBITDA is highly positive from FY20 onward.

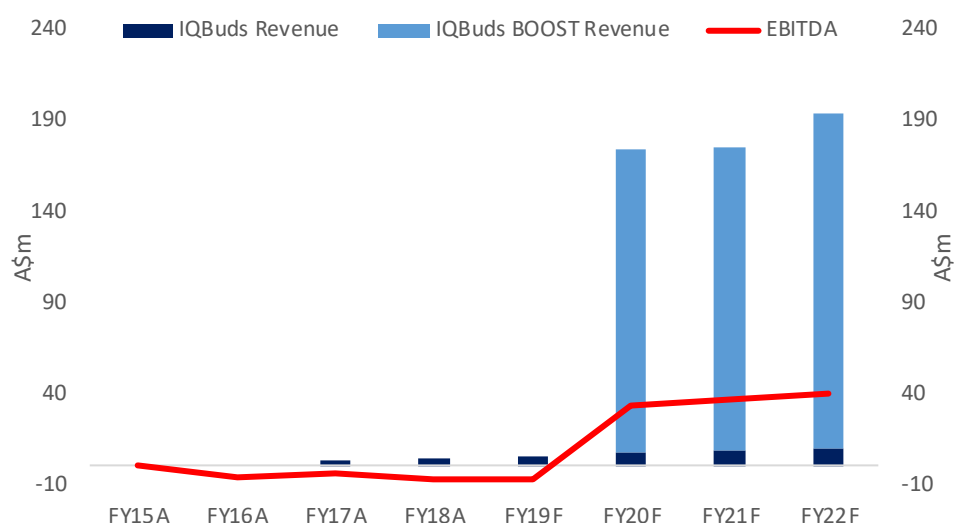
Figure 13: 1% of market Scenario

	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F	FY22F
<b>Revenue (A\$m)</b>	-	-	2.92	5.25	6.64	201.29	201.29	201.29
<i>Revenue Growth</i>			100%	80%	26%	2932%	0%	0%
<b>Gross Profit (A\$m)</b>	-	-	(0.20)	1.59	2.14	60.00	60.00	60.00
<i>Gross Profit Margin</i>			-6.9%	30.3%	32.2%	29.8%	29.8%	29.8%
<b>EBITDA (A\$m)</b>	(0.00)	(6.70)	(4.84)	(7.42)	(7.14)	32.47	36.25	39.08
<i>EBITDA Margin</i>		-100%	-166%	-141%	-108%	16%	18%	19%
<b>NPAT (A\$m)</b>	(0.00)	(6.69)	(4.84)	(7.42)	(7.54)	32.03	34.78	37.23
<i>NPAT Margin</i>		-100%	-166%	-141%	-114%	16%	17%	18%

Source: Patersons Securities Limited

We have valued this scenario at \$0.35/sh, which is well above with the current share. This would be expected as the Company would be generating a large level of EBITDA and cash at this point. We note that achieving 1% of a currently underserved market may be highly achievable (but hard to assign value to at this early stage) given the price point is significantly cheaper than incumbents and that the process of buying is easier. Proven sales traction in the next 12 to 24 months is needed, but significant catalysts and potential in this period are evident.

Figure 14: 1% of Market Revenue and EBITDA



Source: Patersons Securities Limited

## VALUATION SUMMARY

We have retained our HOLD recommendation in the base case, arguing that the NHS contract is a justification of the current market capitalisation rather than a share price catalyst in the near-term. The NHS contract may go a long way in proving up the IQbuds BOOST technology and clinical and medical benefit of the product suite. This could allow for increased market penetration and cross selling.

We do believe that newsflow should be positive in the next 12 months, with the NHS contract stated to start in April 2019. We await to see sales traction from the NHS contract and this product overall. Given that the market is highly underserved presently, and that the NUH products fulfil a need and reduce consumer barriers via ease of purchase and significantly lower costs, we believe NUH could gain significant market share in the mild to moderate hearing loss segment. Should sales traction occur, NUH could easily trade up to the 1% of the market scenario, but we would need evidence of strong sales to assign this a value.

Figure 15: Scenario Summary

Case	Share price	Valuation	(Discount)/Premium	Comment
Base	0.072	0.073	1.4%	NHS contract justifies current market capitalisation
Bear	0.072	0.025	-65.3%	Risk of negative sentiment should sales traction in next 12 months not be evident
Bull	0.072	0.15	108.3%	NHS contract traction could be key for cross selling into global and optical distribution channels
1% of Market	0.072	0.35	386.1%	Mild to Moderate hearing loss is underserved, which provides significant opportunity for NUH to gain market share

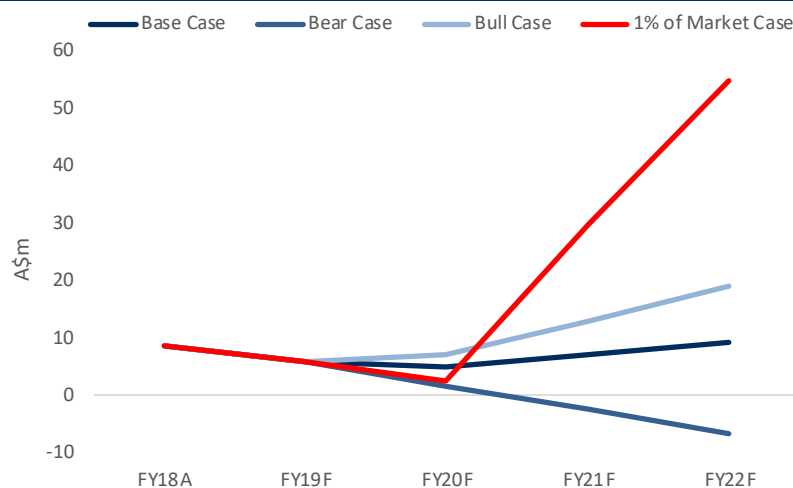
Source: Patersons Securities Limited

## CAPITAL POSITION

As at 30 September 2018, NUH had cash in the bank of \$5.0m and no debt. The Company also currently has a quarterly cash burn of c\$2.0m. In order to assist in the planned activities in the next 6 months, including increasing inventory levels for the IQbuds BOOST and supporting the NHS contract, NUH has recently returned to market to raise a further \$5.0m in capital at \$0.075/sh. The raising was cornerstoned by the Company's existing institutional shareholders including the largest shareholder, Farjoy Pty Ltd.

Thus, we estimate that NUH should have c \$8.0m in cash at the end of December 2018, and should be in a comfortable balance sheet position to aggressively pursue commercialising its IQbuds BOOST product. The company appears to spin off positive cash in all cases except our bear case in which it may need an additional capital raising in the medium term.

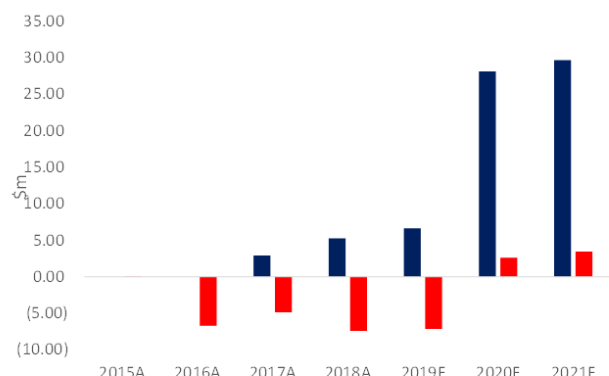
Figure 16: Cash Position



Source: Patersons Securities Limited

Nuheara Limited		Price	\$0.072
Valuation		\$m	\$/sh
Present value of free cash flows		59.9	0.06
Unpaid Capital		0.0	0.00
Net cash/(debt)		10.3	0.01
<b>DCF valuation</b>		<b>70.3</b>	<b>0.07</b>
WACC	13.4%		
Terminal growth	3.0%		
		2019F	2020F
Sales (\$m)		6.6	28.1
Sales Multiple		10.0x	10.0x
Net Debt (Cash) (\$m)		(5.6)	(4.9)
Implied Valuation (\$m)		72.0	286.1
<b>Capitalised earnings per share</b>		<b>\$0.08</b>	<b>\$0.30</b>

#### Graph - Revenue & EBITDA (Base Case)



#### Directors & Substantial Shareholders

Name	Position
Justin Miller	Executive Chairman/CEO
David Cannington	Executive Director
Kathryn Foster	Non-Executive Director

Substantial Shareholders	No. Shares (m)	%
Wasagi Corporation	63.1	7.08
David Cannington	63.1	7.08
Farjoy Pty Ltd	70.4	7.90
<b>Top 20 Shareholders</b>	<b>411.0</b>	<b>46.10</b>

#### Company Background

Nuheara (NUH) is a global leader in smart personal hearing devices which change people's lives by enhancing the power to hear. Nuheara has developed proprietary and multi-functional intelligent hearing technology that augments a person's hearing and facilitates cable free connection to smart devices.

Nuheara is based in Perth, Australia and has offices in San Francisco and New York, USA. Nuheara was the first consumer wearables technology company to be listed on the Australian Stock Exchange (ASX).

In 2016, the Company released its revolutionary wireless earbuds, IQbuds™, which allow consumers to augment their hearing according to their personal hearing preferences and connect hands free with their voice-enabled smart devices. IQbuds™ are now sold in major consumer electronics retailers, professional hearing clinics and optical chains around the world. The Company's mission is to transform the way people hear by creating smart hearing solutions that are both accessible and affordable.

	Year End 30 June			
Profit & Loss (\$m)	2018A	2019F	2020F	2021F
Sales Revenue	5.25	6.64	28.12	29.65
Gross Profit	1.59	2.14	12.73	13.34
<b>EBITDA</b>	<b>(7.42)</b>	<b>(7.14)</b>	<b>2.63</b>	<b>3.43</b>
D&A	0.00	(0.53)	(0.53)	(0.63)
<b>EBIT</b>	<b>(7.42)</b>	<b>(7.67)</b>	<b>2.10</b>	<b>2.80</b>
Net Interest	0.00	0.13	0.08	0.07
<b>Pre-tax Profit</b>	<b>(7.42)</b>	<b>(7.54)</b>	<b>2.18</b>	<b>2.87</b>
Tax Expense	0.00	0.00	0.00	0.00
<b>Normalised NPAT</b>	<b>(7.42)</b>	<b>(7.54)</b>	<b>2.18</b>	<b>2.87</b>
Significant items net	0.00	0.00	0.00	0.00
<b>Reported NPAT</b>	<b>(7.42)</b>	<b>(7.54)</b>	<b>2.18</b>	<b>2.87</b>
Normalised EPS (cps)	(8.32)	(8.16)	2.28	3.00

Cash Flow (\$m)	2018A	2019F	2020F	2021F
EBITDA	(7.42)	(7.14)	2.63	3.43
Net interest	0.08	0.13	0.08	0.07
Income tax paid	1.21	0.00	0.00	0.00
Other capital	(0.40)	(0.24)	(1.81)	(0.16)
<b>Operating Cashflow</b>	<b>(6.53)</b>	<b>(7.26)</b>	<b>0.90</b>	<b>3.34</b>
Capital expenditure	(4.18)	(0.50)	(1.56)	(1.49)
<b>Free Cashflow</b>	<b>(10.71)</b>	<b>(7.76)</b>	<b>(0.66)</b>	<b>1.85</b>
Acquisitions & Investments	0.01	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00
Increase (Repay) Debt	0.00	0.00	0.00	0.00
Equity Raised	15.64	5.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
<b>Net Change in Cash</b>	<b>4.94</b>	<b>(2.76)</b>	<b>(0.66)</b>	<b>1.85</b>
<b>Closing Cash Balance</b>	<b>8.35</b>	<b>5.59</b>	<b>4.93</b>	<b>6.78</b>

Balance Sheet (\$m)	2018A	2019F	2020F	2021F
Cash	8.35	5.59	4.93	6.78
Receivables	0.85	1.03	4.66	4.66
Inventories	2.35	2.54	5.88	4.97
PP&E	0.76	0.89	1.00	1.10
Intangibles	4.53	4.38	5.30	6.06
Other Assets	0.24	0.24	0.24	0.24
<b>Total Assets</b>	<b>17.08</b>	<b>14.67</b>	<b>22.00</b>	<b>23.81</b>
Creditors	1.58	1.71	6.86	5.80
Current Borrowings	0.00	0.00	0.00	0.00
Non-current Borrowings	0.00	0.00	0.00	0.00
Other Liabilities	0.48	0.48	0.48	0.48
<b>Total Liabilities</b>	<b>2.06</b>	<b>2.19</b>	<b>7.34</b>	<b>6.28</b>
<b>Shareholders Funds</b>	<b>15.02</b>	<b>12.48</b>	<b>14.66</b>	<b>17.53</b>

Ratios	2018A	2019F	2020F	2021F
<b>Valuation</b>				
EV/EBITDA (x)	(7.5)	(8.9)	24.4	18.1
PE (x)	(8.7)	(9.1)	31.6	24.0
<b>Profitability</b>				
Revenue Growth (%)	80.1	26.4	323.5	5.5
EBITDA growth (%)	53.2	(3.7)	(136.8)	30.5
EBITDA margin (%)	(141.2)	(107.5)	9.3	11.6
ROE (%)	(49.4)	(60.5)	14.9	16.4
ROIC (%)	(47.8)	(58.2)	14.4	15.9
<b>Balance Sheet</b>				
Net Debt (Cash) (\$m)	(8.3)	(5.6)	(4.9)	(6.8)
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	0.0	0.0	0.0	0.0
NTA (\$/sh)	0.01	0.01	0.01	0.01
Price/NTA (x)	6.1	8.5	7.4	6.0
Shares outstanding (m)	891.5	958.1	958.1	958.1

## Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
26 Nov 18	Research Note	na	0.08	H	
	Current Share Price		0.07		-8.9%

**Stock recommendations:** Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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