

Respiri

FY23 results

Access platform-led growth prospects ahead

Respiri had a very active FY23, including the recent close of the Access Managed Services (Access) acquisition and the signing of several commercial contracts. These represent stepping stones to the company's commercialisation phase, further supported by a strong client pipeline of ongoing contractual discussions, including with two US-based insurers and three accountable care organisations. As a result, management expects to break even by H2 CY24 (revised from end-CY24). Pro forma cash at 30 June 2023 was A\$2.2m, bolstered by the A\$3.9m fund raise in August 2023, which we estimate should support operations into Q424. We have adjusted our estimates to reflect FY23 results and Respiri's recent activities, tempered for timing considerations (client onboarding and patient enrolment). Our valuation adjusts to A\$164.6m or A\$0.17/share (from A\$164.2m or A\$0.20/share, previously).

Year end	Revenue (A\$m)	EBITDA* (A\$m)	PBT* (A\$m)	EPS* (c)	P/revenue (x)	P/E (x)
06/22	0.8	(6.2)	(6.3)	(0.87)	37.8	N/A
06/23	0.7	(5.4)	(5.4)	(0.67)	44.4	N/A
06/24e	6.6	(1.7)	(1.8)	(0.20)	4.4	N/A
06/25e	11.9	0.5	0.4	0.03	2.7	N/A

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

Access platform: Foundation for future growth

Respiri anticipates that the recently finalised Access acquisition will likely enable it to expand its addressable market opportunity (to US\$150m with a broader range of disease areas including respiratory and cardiovascular conditions, diabetes and obesity), improve operational efficiencies and scale up the business, while improving Respiri's economics. Owning the platform (vs partnering with Access) will roughly double the company's revenue per user and remote patient monitoring (RPM) margins to US\$70–100 per month, according to management. The anticipated acceleration would enable Respiri to target break-even at roughly 9,000 customers in H2 CY24 according to management, from end-CY24 previously.

New funding provides a cash runway into Q424

Based on a pro forma cash balance of A\$2.2m (supported by the A\$3.9m fund raise and offset by the US\$1.25m first tranche payment towards the Access acquisition in August 2023), the upcoming A\$0.4m second tranche payment and cash burn projections, we estimate the company is funded to early Q424. We continue to expect Respiri to raise A\$2m before anticipated break-even in H125 (or H2 CY24).

Valuation: A\$164.6m or A\$0.17 per share

We have adjusted our estimates for the recent FY23 results and incorporated near-term operational visibility (with incremental acquisition details). As a result, our valuation increases slightly to A\$164.6m from A\$164.2m, while the per share valuation falls to A\$0.17 from A\$0.20 due to the increased number of shares outstanding (973.7m vs 843.2m previously) after the recent fund-raising.

Healthcare equipment and services

12 September 2023

Price **A\$0.03**
Market cap **A\$31m**

US\$0.65/A\$

 Pro-forma net cash (A\$m) at 30 June 2023 2.2
 (including August fund raise and US\$1.25m first tranche payment)

Shares in issue 973.7m

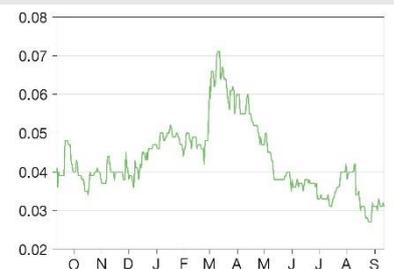
Free float 83%

Code RSH

Primary exchange ASX

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(8.8)	(16.2)	(24.4)
Rel (local)	(6.8)	(17.1)	(26.9)
52-week high/low	A\$0.07	A\$0.03	

Business description

Respiri is an Australian-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 was launched in the US in December 2021.

Next events

Q124 results October 2023

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FY23: A commercially rewarding year

FY23 has been instrumental in driving the company's commercialisation path forward. So far, Respiro has signed contractual agreements with 13 healthcare customers across 12 US states (including Michigan Children's Hospital, Minnesota Lung Center and Arkansas Heart Hospital), which not only indicates the significant steps taken towards commercialisation but also reflects the intensified, focused strategy. Following its strategic exit from the Australian market, the company has made several efforts to scale up its commercial presence in the US market, including a non-exclusive marketing and distribution agreement with Fi-Med Management, the appointment of a chief commercial officer for the US market and, most importantly, the recent acquisition of Access. Despite these commercialisation efforts and customer wins, we note that patient onboarding has been slower than we expected during FY23 and, as a result, the company does not yet have a higher recurring revenue stream. Altogether, FY23 operating revenue came in at A\$70.5k compared to our estimate of A\$1,112.5k. With Respiro having direct oversight of the execution process following the Access acquisition, we expect Respiro to turn around patient enrolment at a relatively faster pace and accelerate the number of new customer contracts.

Access acquisition at the centre of growth strategy

Partnership with Access has been instrumental in driving the wheezo commercialisation efforts. The recent acquisition of Access offers significant upside to Respiro's revenue growth potential, hence, it remains at the centre of the company's growth strategy. The deal offers several important merits, such as potential acceleration of new customer acquisition and patient onboarding with a more direct oversight of operations, significantly improving the patient RPM margins, from US\$10–20 per month to US\$70–100 per month. Leveraging the direct control of operations, Respiro now forecasts it will achieve monthly break-even in H2 CY24 at 9,000 recurring patients, which is materially lower than the previous break-even target of 30,000 patients. We see this break-even target as achievable, provided the revised strategy is implemented and sales targets are met.

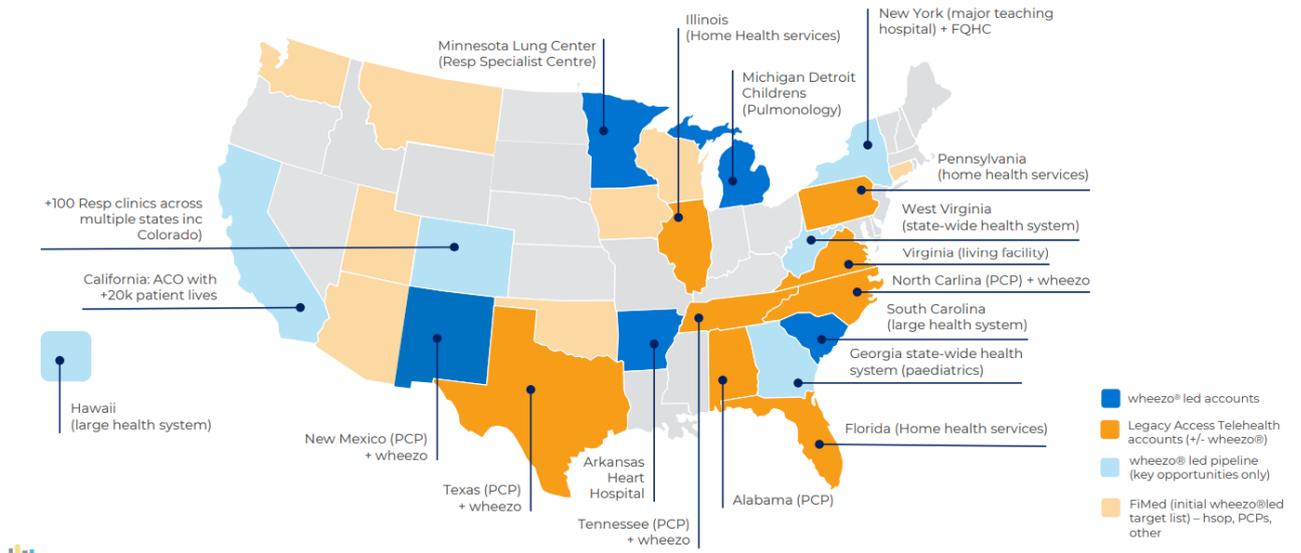
As a reminder, Respiro announced the proposed acquisition of Access in May 2023 for a cash consideration of up to US\$3m (A\$4.5m). This included payment in three tranches: an upfront payment of US\$1.25m at completion of the proposed transaction; US\$0.25m payable three months after deal closure; and up to US\$1.5m payable 12 months post deal closure contingent on RPM patient enrolment exceeding 6,000 per month. Respiro closed the acquisition [in August](#) through a sale and purchase agreement whereby it paid US\$1.25m upfront. The acquisition was financed with a two-step fund raise of [A\\$3.9m](#) through a share purchase plan (A\$3m) and a private placement (A\$0.9m).

Leveraging the early synergies from the acquisition, Respiro recently [announced](#) the signing of two new RPM contracts with VDO Cardiology (a New York-based company providing cardiovascular and electrophysiology care) and Angelic Health Partners (a US-based healthcare provider in hospice, palliative and transitional care). Collectively, the company expects the agreements to generate recurring annual revenue of A\$675k (or US\$85 per patient per month), which has further upside potential with more patient enrolment.

In addition, Respiro was able to extend its existing RPM agreement through Access with Minnesota Lung Center for a remote therapeutic monitoring pilot study, which is being conducted on 150 patients with obstructive sleep apnoea and treated with a medical device. Management expects the study to generate annual revenue of A\$225k (or US\$150k) for the company. We further note that Respiro is in advanced discussions with two insurers and three accountable care organisations, which if realised might add 6,500 patients as part of initial contracts and a US\$3.2m initial revenue

opportunity. In the medium term, these potential contracts could hold revenue potential of US\$34m, with current visibility of 70,000 prospective patients.

Exhibit 1: A partnership-led approach in the fragmented US RPM market



Source: Respi presentation, [August 2023](#)

We note that the Access acquisition broadens Respi’s operational presence to the full range of RPM solutions (including its wheezo device), which might find application in a wide range of indications, including respiratory, cardiovascular, diabetes, asthma, obesity and sleep apnoea. This expands the addressable patient RPM market threefold to 150 million patients from 50 million patients.

Fi-Med agreement adds to incremental growth opportunity

In a step to diversify its partnership base, in July 2023 Respi announced a [three-year distribution and marketing agreement](#) (non-exclusive) with Fi-Med Management, a US-based company providing healthcare support and management solutions to large healthcare organisations. Under the terms of the agreement, Respi will receive US\$30 per patient per month for active and enrolled patients on the wheezo RPM programme. According to the initial review, both companies have identified an addressable target of 29 healthcare organisations, providing immediate access to a patient base of 5,000 and the potential for a larger customer network in the medium term. This target patient base of 5,000 seems to be in addition to Respi’s stated break-even target of 9,000 patients by end-CY24, post the company’s acquisition of Access Managed Services. We note that the US RPM market is highly fragmented, therefore it makes strategic sense for Respi to collaborate with multiple telehealth partners to reach a wider portion of the market.

Exploring the AI opportunities for wheezo

With an expanding customer base and the need for effective RPM solutions to target large-sized organisations, Respi is emphasising on product development by further developing its software technology and is implementing AI capabilities. The company believes it can apply AI models to help identify patients at risk with targeted RPM programmes, to maximise the value potential. We note that large accounts (such as insurers) usually have multi-year vast and complex databases, which need to be analysed to evaluate at-risk and high healthcare cost patients. Amid ongoing discussions with large US-based health insurers and accountable care organisations, the AI tools

could further bolster Respi's value proposition to such customers, wherein business models are focused on healthcare cost reduction.

During FY23, key product developments included the setting up of Health Portal, a SaaS platform that lets partners and healthcare providers sign up and manage patient-level health data. This is in addition to the Access RPM patient management platform Remotli, which gives healthcare providers access to end-to-end solutions, allowing providers and healthcare organisations to make reimbursement claims in addition to managing patient data. The mobile application and health portal were further improved with the addition of the CAT, a chronic obstructive pulmonary disease (COPD) assessment test and a clinical tool to evaluate the impact of the disease.

Additionally, Respi is developing its wearable device, Sorfe, designed as a continuous monitoring means of capturing physiological data to assess asthma and COPD symptoms. Unlike wheezo, which monitors breathing sounds when placed against the trachea, Sorfe will be a wearable device (to be worn on the chest) to support continual monitoring, which could help track the treatment regime and pre-empt the likelihood of exacerbations. According to the latest update from management, the company has finalised the protocol for the short-term study, which will involve 40 patients and will be conducted by Minnesota Lung Center on the company's behalf. While management is waiting for some outside devices to run the study as per protocol, it expects to start the study next month (ie within Q124). During FY23 Respi also set up a US-based medical advisory board to support product and clinical development.

Financials

In FY23, Respi recorded total revenues of A\$657.9k, compared to A\$772.2k in FY22. The revenue mainly comprised A\$587.3k in R&D tax credit and grants income (vs A\$518.5k in FY22), A\$64.2k in wheezo device sales (vs A\$113.4k in FY22) and A\$6.3k in subscription sales and RPM fees (vs A\$2.6m in FY22). FY22 also benefited from A\$137.7k in licence fees, which did not carry over into FY23. Indicating an improvement in manufacturing costs, the company reported A\$65.6k in cost of sales in FY23 (102% of wheezo sales) against A\$259.3k in cost of sales in FY22 (229% of wheezo sales). During the year, Respi made active efforts to trim down its operating expenses, which were reduced 11% year-on-year to A\$6.4m. Due to the winding down of R&D activities with the commencement of wheezo commercial sales, R&D expenses decreased to A\$377.7k, significantly below our estimates of A\$878.0k in FY23 and A\$1,463.3k in FY22. Additionally, lower selling and marketing expenses were reported at A\$216.4k in FY23 (versus A\$916.6k in FY22), benefiting from the partnered RPM model wherein the telehealth partner incurs the majority of sales and marketing efforts. The decline was partially offset by higher employee-related expenses (A\$3.6m versus A\$3.0m in FY22), driven by additional hiring to support Respi's expansion plans, along with a slight increase in other operating expenses. As a result, the company reported an operating loss of A\$5.8m in FY23, a 13% improvement year-on-year.

As Respi has recently closed the acquisition of Access, we have adjusted our estimates to reflect the extended revenue potential. With respect to the acquisition, management has guided that the monthly RPM revenue potential will likely increase to US\$70–100 per user, from US\$10–20 per user previously. Hence, the total number of patient enrolments required for the company to reach break-even reduces to 9,000 (30,000 previously) according to management; current patient enrolments stand at 1,000–2,000 and the company believes it is on track to achieve the break-even target in H2 CY24 (H125). Adjusting our forecasts for the acquisition and latest management guidance, we have included increased monthly RPM revenue of US\$85 per user (vs US\$13 previously) and modified our break-even target of users accordingly in FY25. We now estimate FY24 revenue at A\$6.6m (A\$5.9m previously) and introduce an FY25 revenue forecast of A\$11.9m.

We have also reduced our cost of sales estimate for FY24 to A\$284k (A\$541k previously) to reflect the lower projected device sales coupled with high RPM revenue per user.

In the absence of pro forma numbers and management guidance for operating expenses, we have revised our operating expense estimates based on our current assessment of the acquisition impact. These are subject to variability, and we intend to adjust these further as we get more clarity from management. Our R&D expense estimate is unchanged at A\$1.1m in FY24, which we expect to increase to A\$2.3m in FY25, as the company intends to focus on product development initiatives (especially AI capabilities). After the Access acquisition, Respiri will be incurring sales and marketing (S&M) expenses related to product sales as compared to our previous assumption of a third-party RPM partner taking care of most of these expenses. To reflect a similar trend in out years, we have increased S&M expenses as 40% of revenue (30% previously) and decreased our peak operating margin to 50% as compared to 60%, previously. Accordingly, we have increased our FY24 S&M expense estimate to A\$2.4m (A\$0.8m previously) and project A\$4.4m in FY25. Our staff cost estimates stand at A\$3.2m (unchanged) in FY24 and A\$3.1m in FY25. As a result of these changes, our adjusted operating loss estimate for FY24 now stands at A\$1.8m (vs A\$1.4m previously), which turns into operating profit of A\$0.4m in FY25.

Valuation

As we have updated our estimates for the FY23 results and the acquisition of Access, our gross net present value (NPV) for wheezo has increased to A\$216.5m, from A\$163.3m previously, reflecting the enhanced revenue potential. Also, our peak sales estimate has more than doubled to U\$222.3m versus U\$108.4m previously, due to the anticipated increase in monthly RPM revenue to US\$85 per user (based on management guidance of US\$70–100) from US\$15 per user and the exclusion of one-time device sales revenue of US\$55 per user for all the forecast years. However, we believe there remains an element of uncertainty in achieving management's announced break-even targets within the defined timelines due to the long sales cycles in hospitals and cost sensitivity, the many layers of execution beneath key opinion leaders, the timing of patient onboarding being outside of management control, as well as the currently unknown combined cost of operations. Therefore, we introduce a 75% probability of success in achieving the targeted revenue potential from the combined entity, which mainly depends on the execution of the revised growth strategy. Hence, our risk-adjusted NPV for wheezo is now A\$162.4m, versus A\$163.3m previously.

Based on these changes, our valuation for Respiri remains largely unchanged at A\$164.6m, from A\$164.2m previously, including the roll forward effect as well as an updated net cash balance. The per share valuation adjusts to A\$0.17, compared to A\$0.20 previously, due to the increased number of shares outstanding at 973.7m (843.2m previously).

Exhibit 2: Respiri risk-adjusted NPV

Product	Indication	Geography	Clinical stage	Launch	Peak	Peak sales (US\$m)	Value (A\$m)	Probability	rNPV (A\$m)	rNPV/share (A\$)
Wheezo	Asthma and COPD	US	FDA cleared	2022	2035	222.3	216.5	75%	162.4	0.17
Pro-forma net cash at 30 June 2023 (including A\$3.9m fund raise in August 2023)							2.2	100%	2.2	0.00
Valuation							218.7		164.6	0.17

Source: Edison Investment Research

Respiri closed the year with a cash balance of A\$146k, which was supported by a two-step fund raise of A\$3.9m post reporting period, mainly to fund the Access acquisition and provide for the working capital requirements of the company. In August 2023, Respiri announced that it had raised a total of A\$3.0m through a combination of the share purchase plan (SPP) offer (A\$2.4m) and A\$0.9m in a shortfall placement. As per the initial SPP, eligible shareholders could subscribe to up to 88.2m shares at the offer price of A\$0.034 per share, along with one free attached option for every two shares subscribed, to raise a maximum A\$3m in gross proceeds. The share option is

exercisable at A\$0.065/share until 30 June 2025. This was followed by a A\$0.9m capital raise through a private placement against the issue of 26.5m ordinary shares and at similar terms to the SPP offer. Post these fund raises and a A\$1.9m (US\$1.25m) payout related to the upfront payment for the Access acquisition, our pro forma net cash estimate stands at A\$2.2m, providing a cash runway into early Q424, as per our cash burn estimates.

Based on our revised assumptions, we expect Respiro to achieve operating profitability in FY25. However, we continue to estimate the need to raise another A\$2m in FY24 before attaining break-even in H125. Our model incorporates the additional funding as illustrative debt but, assuming the funds are raised through an equity issue (at the current trading price of A\$0.031/share), Respiro would need to issue another 64.5m shares, resulting in our per-share valuation adjusting to A\$0.16/share. We note that Respiro has a contingent liability of A\$2.3m or US\$1.5m, which might become payable 12 months post deal closure if RPM patient enrolment exceeds 6,000 per month.

Exhibit 3: Financial summary

	A\$'000s	2022	2023	2024e	2025e
Year-end June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		772	658	6,644	11,911
Cost of Sales		(259)	(66)	(284)	(322)
Gross Profit		513	592	6,360	11,588
R&D expenses		(1,463)	(378)	(1,090)	(2,265)
Sales & marketing expenses		(917)	(216)	(2,382)	(4,393)
General & corporate expenses		(4,371)	(5,350)	(4,618)	(4,431)
EBITDA		(6,238)	(5,352)	(1,730)	500
Depreciation		(82)	(77)	(105)	(130)
Amortisation		0	0	0	0
Operating profit (before amort. and excepts.)		(6,320)	(5,429)	(1,835)	370
Intangible Amortisation		0	0	0	0
Share-based payments		(311)	(336)	(336)	(336)
Exceptionals		0	0	0	0
Operating Profit		(6,631)	(5,765)	(2,171)	34
Net Interest		7	(11)	1	2
Profit Before Tax (norm)		(6,313)	(5,440)	(1,835)	372
Profit Before Tax (reported)		(6,624)	(5,775)	(2,170)	36
Tax		0	0	0	(78)
Profit After Tax (norm)		(6,313)	(5,440)	(1,835)	294
Profit After Tax (reported)		(6,624)	(5,775)	(2,170)	(42)
Average Number of Shares Outstanding (m)		728.6	806.5	908.5	973.7
EPS - normalised fully diluted (c)		(0.87)	(0.67)	(0.20)	0.03
Dividend per share (c)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		83	176	4,750	4,808
Intangible Assets		0	0	0	0
Tangible Assets		83	176	250	308
Investments		0	0	4,500	4,500
Current Assets		4,123	3,005	5,042	5,820
Stocks		2,651	1,232	1,653	2,239
Debtors		50	47	477	855
Cash		1,217	146	1,332	1,146
Other		204	1,580	1,580	1,580
Current Liabilities		(1,198)	(2,238)	(2,869)	(3,747)
Creditors		(790)	(1,846)	(2,477)	(3,355)
Short term borrowings		0	0	0	0
Other current liabilities		(408)	(392)	(392)	(392)
Long Term Liabilities		0	(116)	(4,366)	(4,366)
Long term borrowings		0	0	(2,000)	(2,000)
Other long term liabilities		0	(116)	(2,366)	(2,366)
Net Assets		3,008	827	2,557	2,515
CASH FLOW					
Operating Cash Flow		(8,478)	(4,490)	(2,285)	3
Net Interest		7	(11)	1	2
Tax		0	0	0	0
Capex		(2)	(22)	(179)	(188)
Acquisitions/disposals		0	0	(2,250)	0
Financing		1,639	3,259	3,900	0
Dividends		0	0	0	0
Net Cash Flow		(6,834)	(1,263)	(813)	(184)
Opening net debt/(cash)		(7,973)	(1,217)	(146)	668
Other		78	192	(1)	(2)
Closing net debt/(cash)		(1,217)	(146)	668	854

Source: Company Reports, Edison Investment Research

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