



Mach7 Technologies (M7T)

31 January 2020

Expecting a strong 1H result. Fair value estimate raised

Our View

We reiterate our buy recommendation with a higher level of conviction in the investment thesis: validation of Mach7's software in large hospital networks should spur increasing demand. With \$9.4m in new business for 1H FY20, the thesis appears to be playing out well. After upgrading our FY20 numbers to reflect stronger than expected cash flow and extending the forecast to FY23, our base case fair value estimate rises to \$1.07 (30-Aug: \$0.77) which implies a 12-month price target of \$1.17. Our forecasts assume additional contract wins at large institutions (similar in deal size to Advocate Aurora) over the next 12 months. The major downside risk is in delays to contract wins. Management report the pipeline is strong with opportunities at various stages of advancement.

Key Points

1H FY20 ahead of expectations with \$8.3m in cash receipts and \$2.2m in FCF

- 1H cash receipts included ~\$2.8m in an upfront software licence fee from Advocate Aurora Health (Mach7's largest US customer). Our forecasts assume receipt of a similar sized fee in 2H from HK Hospital Authority.
- Strong 1H performance requires an upgrade to our 30-Aug FY20 estimates. See page 6 for variance of key items.
- End of February FCF breakeven target ought to be materially exceeded. Quarterly cash receipts will remain volatile, although positive FCF should now be sustainable over the medium-long term.
- \$20m capital raise completed in 2Q and flagged for M&A. Our forecasts do not yet incorporate M&A activity or the possibility of one-offs such as due diligence and corporate advisory expenses.

PACS replacements in radiology and now in cardiology are near-term growth drivers

- Global healthcare IT suppliers are gradually exiting the PACS and enterprise imaging software markets to focus on equipment sales and managed services. Conversations with industry participants at RSNA confirm customers are growing frustrated with the lack of new investment in software.
- Mach7's enterprise imaging software paired with the eUnity viewer offers a complete radiology PACS replacement. This has been rolled out at Sentara Healthcare where it will also be showcased in an "Imaging Innovations Lab".
- A key takeaway from RSNA was that Cardiology PACS lag even further behind radiology. Healthcare providers are looking to cut costs and complexity in this department but there is no enterprise imaging solution currently available. The existing cardiology IT market is estimated to be US\$569m in FY20 and growing at ~4%.
- Mach7 is building the first cardiology PACS replacement at Maine Health which is scalable across a health network. If this is deemed successful, other institutions would demand similar solutions. Maine Health may present the solution at the HIMSS conference on 11 March.

Increase in price target and fair value estimate justified by peer multiples & outlook

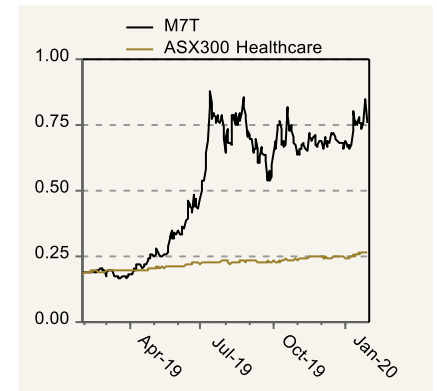
- Since our initiating report on 1-Aug, M7T has underperformed the ASX 300 Health Care Equipment and Services Index by 5.7%.
- Using 3-year consensus forecasts, M7T remains significantly undervalued in comparison with Pro Medicus (PME) and Volpara Health Technologies (VHT) on forward EV/Sales and EV/EBITDA ratios.

Recommendation: Buy

Summary (AUD)

Market Capitalisation	\$141M
Share price	\$0.76
Price Target	\$1.17
52 week low	\$0.17
52 week high	\$0.92

Share price graph (AUD)



Key Financials (AUD)

	FY19A	FY20E	FY21E
Revenue (\$m)	9,347	14,553	18,104
EBIT (\$m)	(7,472)	(337)	1,750
NPAT Adj.	(7,059)	(307)	1,848
EPS Adj. (c)	(5.10)	(0.17)	1.01
Growth (pcp)	n/a	n/a	n/a
PE Ratio (x)	(15)	(453)	75
DPS (c)	n/a	n/a	n/a
Div Yield	n/a	n/a	n/a
Franking	n/a	n/a	n/a
EV (\$M)	137	115	110
EV/EBITDA (x)	(36)	48	25
EV/EBIT (x)	(18)	(342)	63

Mach7 Technologies - Summary of Forecasts M7T \$ 0.76

PROFIT & LOSS SUMMARY (A\$ 000)				
Year end June	FY19A	FY20E	FY21E	FY22E
Total Revenue	9,347	14,553	18,104	23,414
EBITDA (Adjusted)	(3,765)	2,400	4,501	8,708
Dep'n/Other Amort'n	(3,707)	(2,737)	(2,751)	(2,789)
EBIT	(7,472)	(337)	1,750	5,918
Net Interest	(18)	31	98	122
Pre-Tax Profit	(7,823)	(307)	1,848	6,040
Tax Expense	764	0	0	0
NPAT	(7,059)	(307)	1,848	6,040
Margins on Sales Revenue				
EBITDA (Adjusted)	-40%	16%	25%	37%
EBIT	-80%	-2%	10%	25%
NPAT	-76%	-2%	10%	26%
Change on pcp				
Total Revenue	8%	56%	24%	29%
EBITDA	n/a	n/a	88%	93%
EBIT	n/a	n/a	n/a	238%
NPAT	n/a	n/a	n/a	227%

PER SHARE DATA				
Year end June	FY19A	FY20E	FY21E	FY22E
EPS Adj. (c)	(5.1)	(0.2)	1.0	3.3
Growth (pcp)	n/a	n/a	n/a	227%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	n/a	n/a	n/a	n/a
FCF per Share (c)	(2.0)	1.3	2.8	5.1
NTA per share (c)	(0.1)	12.3	15.2	20.4

KEY RATIOS				
Year end June	FY19A	FY20E	FY21E	FY22E
Net Debt : Equity (%)	-16%	-78%	-86%	-95%
EBIT Interest cover (x)	(165.1)	(10.5)	n/a	n/a
Free CF / NPAT	0.4	(7.8)	2.7	1.5
Current ratio (x)	1.1	5.9	5.5	5.8
ROE (%)	-57%	-2%	6%	17%
Dividend Payout Ratio (%)	n/a	n/a	n/a	n/a

VALUATION MULTIPLES				
Year end June	FY19A	FY20E	FY21E	FY22E
PER (x)	(14.9)	(452.8)	75.1	23.0
Dividend Yield (%)	n/a	n/a	n/a	n/a
FCF Yield (%)	-3%	2%	4%	7%
EV/EBITDA (x)	-36.4	48.0	24.5	11.6
EV/EBIT (x)	-18.4	-342.0	63.0	17.1

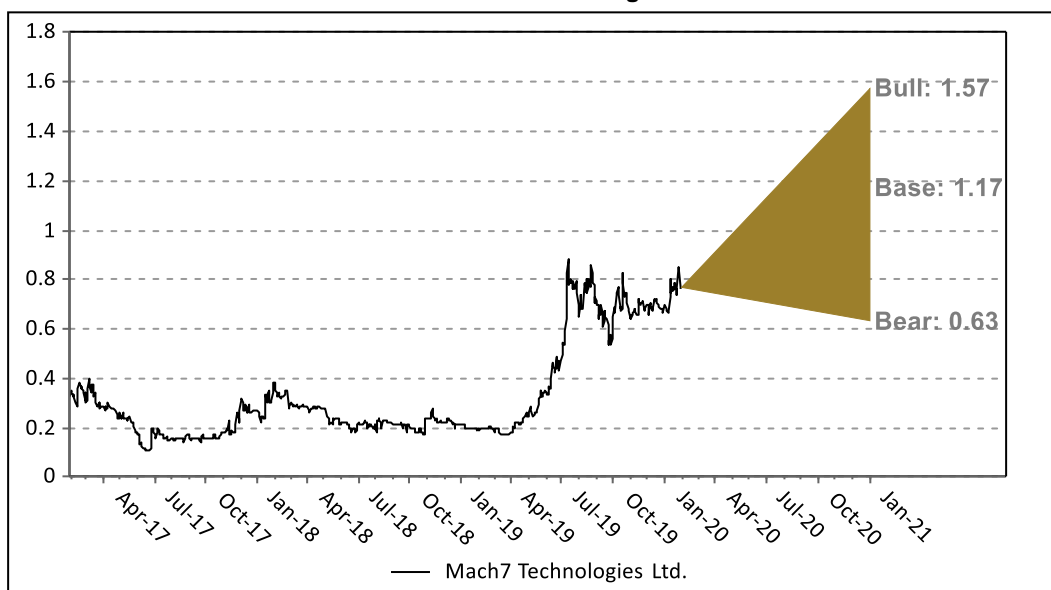
BALANCE SHEET SUMMARY				
Year end June	FY19A	FY20E	FY21E	FY22E
Cash	2,268	23,520	28,549	37,860
Receivables	1,887	1,648	2,154	2,766
Customer Contract Assets	1,605	2,060	2,840	3,395
Other	174	183	201	222
Total Current Assets	5,934	27,411	33,744	44,243
Property Plant & Equip	187	201	222	230
Intangibles	10,585	7,939	5,293	2,646
Investments	318	318	318	318
Contract Deposits	748	748	748	748
Total Non-Current Assets	11,839	9,207	6,581	3,943
TOTAL ASSETS	17,773	36,618	40,325	48,186
Accounts Payable	1,113	1,184	1,280	1,385
Borrowings	613	0	0	0
Customer Contract Liabilities	3,478	3,434	4,896	6,287
Other	—	—	—	—
Total Current Liab	5,204	4,618	6,176	7,671
Finance Leases	0	0	0	0
Deferred Tax Liability	2,203	1,652	1,101	551
Total Non-Current Liab	2,203	1,652	1,101	551
TOTAL LIABILITIES	7,407	6,270	7,278	8,222
TOTAL EQUITY	10,366	30,348	33,048	39,964

CASH FLOW SUMMARY				
Year end June	FY19A	FY20E	FY21E	FY22E
EBIT (excl Abs/Extr)	(7,472)	(337)	1,750	5,918
Add: Dep. & Amortisation	3,707	2,737	2,751	2,789
Share-based Pay.	196	279	301	326
Less: Tax paid	0	0	0	0
Net Interest	18	(31)	(98)	(122)
Change in NWC	945	(199)	255	307
Other Funds	(297)	61	195	243
Gross Cashflows	(2,904)	2,511	5,155	9,463
Capex	(94)	(105)	(126)	(151)
Free Cashflows	(2,998)	2,406	5,029	9,311
Net Borrowings	573	(628)	0	0
Net Share Issue Proceeds	2,908	19,510	0	0
Other Funds	(726)	0	0	0
Net Cashflows	(243)	21,287	5,029	9,311

Valuation Scenario Analysis

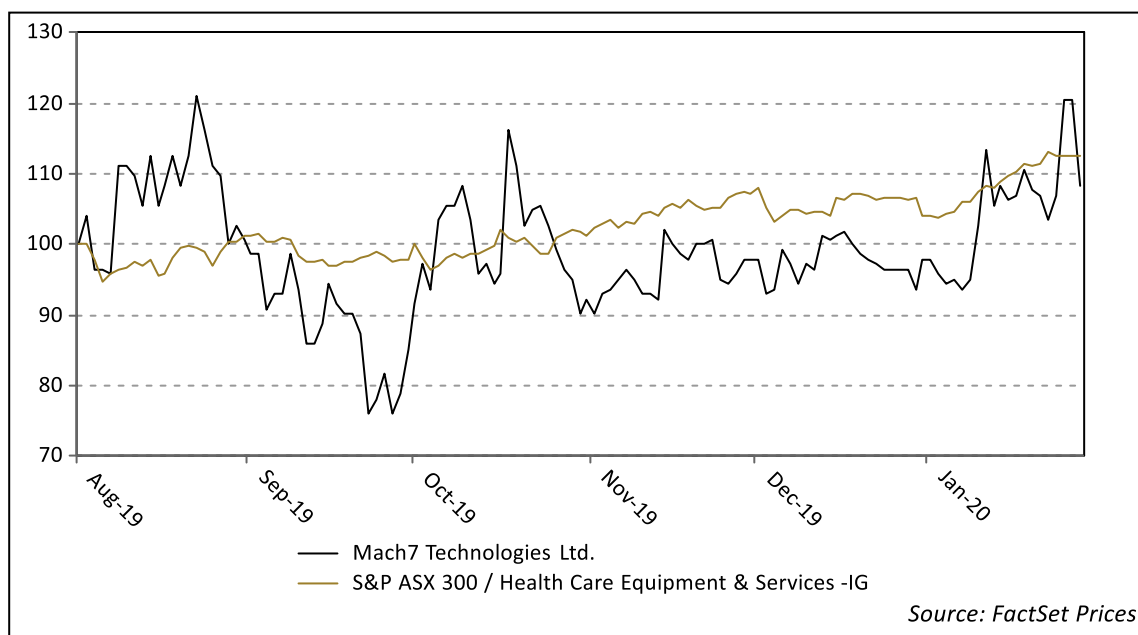
	CAGR (%)			FY20e Adjusted EBITDA (\$ 000)	EV (\$ 000)
	Mkt Share	Revenue	EBITDA		
Bull	30%	28%	80%	2,476	238,510
Base	20%	21%	61%	2,400	171,395
Bear	10%	15%	40%	2,287	81,474

12-Month Price Target



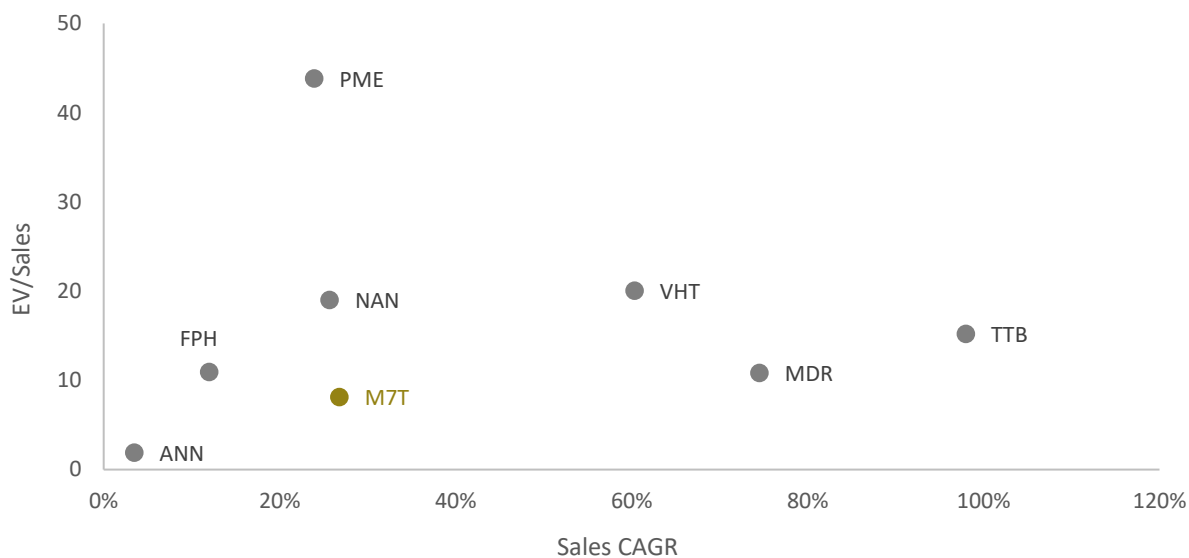
M7T Returns vs ASX 300 Health Care Equipment & Services Index

Since our initiating report on 1-Aug 2019 M7T has underperformed the ASX 300 healthcare equipment and services index by 5.7%.

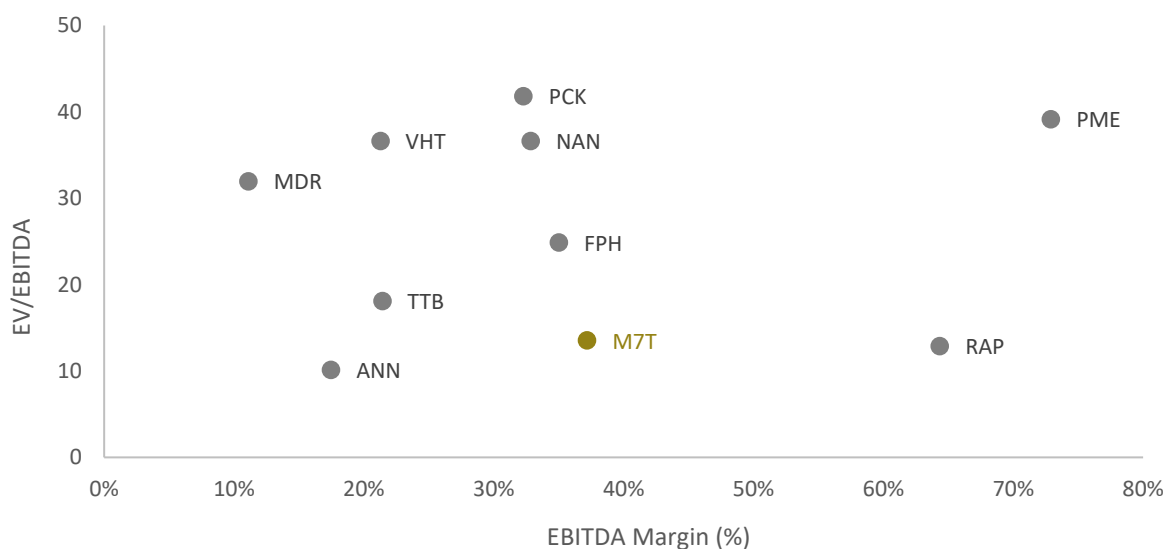


M7T Current Valuation vs ASX Healthcare Peers (Forward Consensus Estimates)

EV/Sales (FY20e/FY1) vs FY1-3 Sales CAGR (%)



EV/EBITDA (FY22e/FY3) vs FY3 EBITDA Margin



Updated Forecasts (Base Case Assumptions)

INCOME STATEMENT (AUD \$ 000)										
	1H19A	FY19A	1H20E	FY20E	1H21E	FY21E	1H22E	FY22E	1H23E	FY23E
Revenue	3,516	9,347	7,685	14,553	8,312	18,104	10,841	23,414	12,419	25,978
Employee Benefits Expense	(4,527)	(8,904)	(4,553)	(9,288)	(4,924)	(10,046)	(5,326)	(10,866)	(5,761)	(11,752)
Distributor & Licence Fees	(138)	(1,610)	(157)	(306)	(383)	(731)	(358)	(734)	(374)	(760)
Marketing	(461)	(526)	(346)	(437)	(415)	(534)	(498)	(653)	(598)	(783)
Travel & Accommodation	(233)	(451)	(222)	(441)	(235)	(468)	(249)	(496)	(264)	(525)
Professional, Consultancy & Corporate	(215)	(482)	(280)	(575)	(309)	(633)	(341)	(698)	(376)	(770)
General Administration Expenses	(418)	(807)	(439)	(847)	(461)	(890)	(484)	(934)	(508)	(981)
Net Other Income/Expenses	(135)	(108)	36	83	47	98	57	122	76	161
Restructuring Costs	—	(333)	—	—	—	—	—	—	—	—
EBITDA (Reported)	(2,611)	(3,875)	1,724	2,741	1,632	4,900	3,642	9,155	4,614	10,567
Share Based Payments	(343)	(196)	(137)	(279)	(148)	(301)	(160)	(326)	(173)	(353)
<i>EBITDA Adjustments:</i>										
<i>Less: Interest Income (from Other Income)</i>	—	(28)	(16)	(63)	(47)	(98)	(57)	(122)	(76)	(161)
<i>Addback: Restructuring Costs</i>	—	333	—	—	—	—	—	—	—	—
EBITDA (Adjusted)	(2,954)	(3,765)	1,572	2,400	1,437	4,501	3,425	8,708	4,366	10,054
Depreciation	—	(67)	(40)	(91)	(42)	(105)	(69)	(143)	(72)	(151)
Amortisation	—	(3,640)	(1,323)	(2,646)	(1,323)	(2,646)	(1,323)	(2,646)	(1,323)	(2,646)
EBIT	(4,806)	(7,472)	209	(337)	72	1,750	2,033	5,918	2,971	7,257
Net Interest	(14)	(18)	(16)	31	47	98	57	122	76	161
Impairments	—	—	—	—	—	—	—	—	—	—
Restructuring Costs	—	(333)	—	—	—	—	—	—	—	—
Pre-Tax Profit	(4,820)	(7,823)	193	(307)	119	1,848	2,090	6,040	3,046	7,418
Income Tax Benefit (Expense)	382	764	—	—	—	—	—	—	—	—
NPAT	(4,438)	(7,059)	193	(307)	119	1,848	2,090	6,040	3,046	7,418

BALANCE SHEET (AUD \$ 000)										
	1H19A	FY19A	1H20E	FY20E	1H21E	FY21E	1H22E	FY22E	1H23E	FY23E
Cash & Equivalents	3,205	2,268	23,280	23,520	25,244	28,549	32,265	37,860	42,564	48,617
Financial Assets	—	—	—	—	—	—	—	—	—	—
Trade & Other Receivables	861	1,887	1,422	1,648	1,829	2,154	2,385	2,766	2,732	2,983
Customer Contract Assets	2,365	1,605	2,039	2,060	2,494	2,840	3,035	3,395	3,229	3,390
Other Current Assets	216	174	174	183	192	201	211	222	233	245
CURRENT ASSETS	6,647	5,934	26,914	27,411	29,759	33,744	37,896	44,243	48,758	55,234
Plant & Equipment	171	187	192	201	213	222	219	230	236	261
Intangibles	12,402	10,585	9,262	7,939	6,616	5,293	3,969	2,646	1,323	—
Investments	318	318	318	318	318	318	318	318	318	318
Contract Deposits	744	748	748	748	748	748	748	748	748	748
NON CURRENT ASSETS	13,635	11,839	10,521	9,207	7,895	6,581	5,254	3,943	2,626	1,328
TOTAL ASSETS	20,282	17,773	37,435	36,618	37,654	40,325	43,151	48,186	51,384	56,562
Trade & Other Payables	867	1,113	1,138	1,184	1,231	1,280	1,332	1,385	1,440	1,498
Customer Contract Liabilities	3,203	3,478	3,940	3,434	4,156	4,896	5,420	6,287	6,210	6,779
Interest Bearing Liabilities	654	613	—	—	—	—	—	—	—	—
Financial Liabilities	—	—	—	—	—	—	—	—	—	—
CURRENT LIABILITIES	4,723	5,204	5,078	4,618	5,387	6,176	6,752	7,671	7,650	8,277
Finance Leases	—	—	—	—	—	—	—	—	—	—
Deferred Tax Liability	2,585	2,203	1,927	1,652	1,377	1,101	826	551	275	—
NON CURRENT LIABILITIES	2,585	2,203	1,927	1,652	1,377	1,101	826	551	275	—
TOTAL LIABILITIES	7,308	7,407	7,005	6,270	6,764	7,277	7,578	8,222	7,925	8,277
Contributed Equity	58,636	58,845	78,492	78,634	78,782	78,935	79,095	79,261	79,434	79,614
Reserves	3,540	3,344	3,569	3,844	4,120	4,395	4,670	4,946	5,221	5,496
Retained Earnings	(49,203)	(51,824)	(51,631)	(52,130)	(52,011)	(50,283)	(48,193)	(44,243)	(41,197)	(36,825)
TOTAL EQUITY	12,974	10,366	30,430	30,348	30,890	33,048	35,573	39,964	43,459	48,285
NET ASSETS	12,974	10,366	30,430	30,348	30,890	33,048	35,573	39,964	43,459	48,285

CASH FLOW STATEMENT (AUD \$ 000)

	1H19A	FY19A	1H20E	FY20E	1H21E	FY21E	1H22E	FY22E	1H23E	FY23E
Net Income	(4,438)	(7,059)	193	(307)	119	1,848	2,090	6,040	3,046	7,418
Add: Depreciation & Amortisation	1,851	3,707	1,363	2,737	1,365	2,751	1,392	2,789	1,395	2,797
Add: Share Based Payments	343	196	137	279	148	301	160	326	173	353
Other Funds	(370)	(693)	—	—	—	—	—	—	—	—
Funds From Operations	(2,613)	(3,849)	1,692	2,709	1,632	4,900	3,642	9,155	4,614	10,567
Change in NWC	640	945	519	(199)	147	255	139	307	167	371
Net Operating Cash Flow	(1,972)	(2,904)	2,211	2,511	1,779	5,155	3,781	9,463	4,781	10,938
Capex (Fixed Assets)	(30)	(89)	(45)	(105)	(54)	(126)	(65)	(151)	(78)	(181)
Capex (Intangible Assets)	—	(5)	—	—	—	—	—	—	—	—
Other Funds	(726)	(726)	—	—	—	—	—	—	—	—
Net Investing Cash Flow	(757)	(820)	(45)	(105)	(54)	(126)	(65)	(151)	(78)	(181)
Net Borrowings	615	573	(628)	(628)	—	—	—	—	—	—
Proceeds from exercise of share options	—	—	830	830	—	—	—	—	—	—
Proceeds from Capital Raising	3,000	3,112	20,000	20,000	—	—	—	—	—	—
Capital Raising Cost	(200)	(204)	(1,320)	(1,320)	—	—	—	—	—	—
Net Financing Cash Flow	3,415	3,481	18,882	18,882	—	—	—	—	—	—
Net Increase in Cash and Cash Equivalents	686	(243)	21,047	21,287	1,725	5,029	3,716	9,311	4,704	10,757

Variance in Key Forecast Items (current vs 30-Aug 2019)

	FY20E			FY21E			FY22E		
	30-Aug	29-Jan	Variance	30-Aug	30-Jan	Variance	30-Aug	30-Jan	Variance
Revenue	13,983	14,553	4%	18,136	18,104	0%	23,476	23,414	0%
EBITDA (Adj.)	699	2,400	243%	4,353	4,501	3%	8,921	8,708	-2%
EBIT (Adj.)	(2,813)	(337)	88%	761	1,750	130%	6,179	5,918	-4%
Profit Before Tax	(2,761)	(307)	89%	866	1,848	113%	6,389	6,040	-5%
NPAT (Reported)	(2,002)	(307)	85%	788	1,848	134%	5,686	6,040	6%
FCF	1,454	2,406	65%	5,812	5,029	-13%	9,525	9,311	-2%

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