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Simavita

Initiation of coverage

A golden opportunity

Healthcare equipment & services

Simavita is pioneering the use of its proprietary SIM (Smart Incontinence Management) platform to improve the outcomes and costs associated with urinary incontinence in residential care settings. As a launch into the important US market is planned for May, the next 12 to 18 months should mark the defining events on Simavita's journey towards sustainable profitability. Our DCF model suggests a valuation of A$104m.

Year end	Revenue (A$m)	PBT* (A$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/13	0.3	(8.5)	N/A	0.0	N/A	N/A
06/14e	0.5	(9.7)	(14.4)	0.0	N/A	N/A
06/15e	6.0	(5.6)	(7.4)	0.0	N/A	N/A
06/16e	15.7	(0.5)	1.2	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Taking the guesswork out of urinary assessments

Urinary incontinence is a major and growing issue in aged care, with around a quarter of a nursing home's labour costs devoted to it, yet when managed properly sizeable improvements can be made. Assessment is the first step in identifying the type of incontinence, the residents' risk factors, and the appropriate toileting programme. The SIM platform simplifies the process and creates a personalised continence care plan for each resident.

Better clinical outcomes and financial benefits, too

The improvements in clinical outcomes are well documented and include fewer urinary tract infections, fewer pressure ulcers, a reduced number of falls and less depression and anxiety. The financial benefits from more effective toileting are equally compelling, with material savings in direct costs such as fewer adult pads and briefs, gloves, cleansing solutions, disposable washcloths and linens, as well as more effective staff utilisation and reduced waste handling charges. The amounts saved depend on the size of nursing home and type of resident, but savings of between a quarter and a third have been reported.

Launching into the important US market in May

The US market is particularly attractive, with a supportive regulatory and legislative environment underscoring the revenue potential. Simavita has joined up with Medline, a leading manufacturer and distributor of disposable incontinence products, and which will integrate the SIM platform into its existing continence management programmes. Commercial launch is due in May 2014.

Valuation: Tapping into a major demographic trend

We have used a three-phase DCF model to value Simavita; this suggests it is worth A$104m, which compares to the market capitalisation of A$29.4m. Using the basic shares in issue of 58.8m we derive a value of A$1.78 per share, and with the 9.2m of options and warrants included the diluted value is A$1.53 per share.

1 May 2014

Price	**A$0.50**
Market cap	**A$29m**
	A$1.079/US$
Net cash (A$m) at Dec 2013	7.9
Shares in issue	58.8m
Free float	57%
Code	SV / SVA
Primary exchange	TSX-V
Secondary exchange	ASX

Share price performance

%	1m	3m	12m
Abs	N/A	N/A	N/A
Rel (local)	N/A	N/A	N/A
high/low		A$1.07	A$0.50

Business description

Simavita listed on the TSX-V in December 2013 and ASX in February 2014. Its SIM platform technology is an integrated assessment device that helps manage urinary incontinence. The devices are used in residential and nursing home settings to better optimise incontinence care.

Next events

US launch by Medline	May 2014
FY14 results	August 2014
Canadian and first European distributors	End-2014

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Edison profile page

Simavita is a research client of Edison Investment Research Limited

Investment summary

Company description: Developed and tested in the field

Simavita is an Australian healthcare company that has developed a novel device for the assessment and management of urinary incontinence. The flagship product is SIM (Smart Incontinence Management), a wireless sensor technology used in the assessment and management of urinary incontinence in residential settings as well as for those managed at home. The benefits include improvements in patients' health and quality of life, as well as financial and productivity gains for the care providers. SIM has been developed in the field since 2007 and is ready for commercial launch. Medline is the partner for the US, with other territory distributors being established. Simavita has invested a total of A$31m in developing the technology since inception. Listed on TSX in December 2013, and ASX in February 2014. Currently there are 30 employees.

Valuation: Worth A$104m based on our DCF model

Simavita's specialised nature, coupled with its relatively early stage of development, means peer group comparisons and earnings-based metrics are of little use. We have employed a DCF-based model, with three distinct phases: using our forecasts (based on discussions with the company) for free cash flows from FY14 to FY18, a tapering phase from FY19 to FY28, and with terminal value thereafter. We have employed a 12.5% discount rate and 22% tax rate beyond FY18.

Our model suggests Simavita is currently worth A$104m, which compares to the market capitalisation of A$29.4m. On a per share basis, using the basic number of shares in issue of 58.8m we derive a value of A$1.78 per share, once the 9.2m of options and warrants (the strike price range from A$0.41-0.82, with expiries between three to five years) the value is A$1.53 per share.

A sensitivity analysis shows that if revenues were to be 20% higher, the valuation would be A$147.7m, equivalent to A$2.51 a share (basic) and A$2.17 a share on a diluted basis; with revenues 20% lower the valuation is A$61.2m, and A$1.04 (basic) and A$0.90 (diluted) per share.

Financials: Profitability could be achieved as soon as FY16

The recent (December 2013) A$14m fund-raising will be used for inventory build and to support launches in the US during this year, with further geographic roll-outs scheduled for CY15 (possibly Canada and the first European market) and CY16 (Japan plus further Europe). Our forecasts only include known revenue streams and so possible income from the providing of data to third parties or from the SIM platform developments are viewed as potential upside. On this basis, we expect Simavita to achieve break even during FY16, with our forecasts suggesting it has sufficient financial resources to maintain cash self-sustainability thereafter.

Sensitivities: The usual small technology company risks apply

Simavita's business is subject to the usual risks associated with any emerging technology: slower than expected commercialisation timelines, lower rates of adoption, technology leap-frogging, patent litigation, as well as regulatory and commercial risks. Other sensitivities include partnering assumptions (as these are largely undisclosed); attractive future collaboration deals (further territories are required); issues with expansion into new geographies (cultural, regulatory and social differences will require adaptation of the business model); competitive threats (commercial success will attract larger competitors); currency impacts (as a result of operations in international markets), and dependence on a key manager. Sensitivities on slippage in product development timelines, the risks on market launches and adoption, and competitive threats are not new, nor are they specific to Simavita alone. Nonetheless, the impact is more commercially significant for a smaller company than for a larger, better diversified, multinational player.

Company description: Addressing a clear need

Simavita is pioneering the use of its proprietary SIM (Smart Incontinence Management) platform to improve the outcomes and costs associated with urinary incontinence. Although initially focused on the nursing and residential care settings, SIM is expected to also be rolled out (with appropriate partners) into the homecare settings too. With US launches already underway, the next 12 to 18 months should mark the defining events on Simavita's journey towards sustainable profitability. Simavita's current size means even a modest success is likely to be transformational to the company's finances.

Urinary incontinence is a major and growing issue in the aged care setting, with around a quarter of a nursing home's labour costs devoted to it. The provision of care to the elderly is a highly regulated area in most developed countries and there is a considerable guidance framework to ensure adequate care is provided, with continence management being a key element that is evaluated. Although the requirements vary from territory to territory, the primary goal of the continence standards and related guidelines is to identify residents who are incontinent or at risk of becoming incontinent, and then assess them with a view to formulating individualised treatment and management care plans. An estimated 15 million assessments are performed annually worldwide, with most procedures requiring time-consuming manual logs.

The SIM platform consists of an integrated wireless network that remotely monitors the continence events of a resident through a discreet sensor placed in an incontinence aid. This automated monitoring process removes the guesswork and subjectivity associated with manual assessment. The initial continence assessment is carried out over a 72-hour period, resulting in a personalised care plan specific to a resident's needs. These management plans improve residents' comfort and quality of life, and reduce skin irritation and associated complications (notably ulceration). Simavita believes the improved information also allows for an optimisation in labour utilisation (c 12% cost saving) and use of fewer continence products (around 30% less for a 100-bed facility).

The first clinical trial was completed in 2004; however, momentum was lost when the originator died. The CEO, Philippa Lewis, has revitalised the business and the current SIM platform has been developed, tested and refined since 2010 through extensive use in 40 Australian sites. The current version is the fourth-generation and includes Wi-Fi operation and full connectivity with hand-held smart devices (SIM assist). The commercialisation plans are initially focused on long-term care (LTC) residents (where the incontinence guidelines will assist adoption), but a Community Care version is nearly complete (possibly by end-2014) and a low-cost sensor, for everyday use, is also being progressed.

A distribution agreement with Medline (a major player in the incontinence segment), coupled with FDA clearance (received in 2013), should see a full US launch in mid-2014. Further roll-outs are expected in Canada and the first European market (most likely the UK and/or the Netherlands) in 2015 and Japan (and further European countries) in 2016. The A$14m fund-raising in December 2013 should be sufficient to allow Simavita to commercialise the SIM platform into the important North American market and see it through to profitability (our model forecasts operating break even should occur late in FY16).

Initially, much will depend on the rate of adoption in the commercially important US market. The legislative environment is conducive, with guidelines advocating that at the very least an assessment should be done on admission of a new resident into care or with a change in condition. In some cases, the reassessment of a resident's status is mandated more regularly, such as a quarterly basis. Medline is well positioned to exploit this, with a broad and relevant product portfolio and an established sales and distribution infrastructure. Further out, revenues should be driven by geographic roll-outs and new product applications suitable for community use and, as sensor production costs improve, for use in everyday continence pads and briefs.

Urinary incontinence is a major opportunity

Urinary incontinence or, perhaps more appropriately, continence problems, are a major issue within most societies. Although seldom discussed openly, these are not new and are well documented, carrying material economic and societal consequences. In the US the direct costs of incontinence are estimated to be more than $10bn annually (the range is $10-16bn), and in nursing homes alone (where the data are more robust), the costs of labour, laundry, and supplies necessary to manage incontinence and its complications are around $4bn pa (source: Medscape). Similar pro-rata figures apply to other developed countries. There are also associated morbidity-related costs such as urinary tract infection, impaired skin hygiene (leading to pressure ulcers), depression and anxiety, increased falls in the more elderly, and greater use of other healthcare resources.

Ageing population drives need for incontinence management

Ageing causes a number of changes in the urinary system that can lead to incontinence:

- Less bladder elasticity – lowers capacity and causes more frequent voids.
- Higher urine volume – kidneys are less efficient at concentrating urine.
- Weaker detrusor muscles causing incomplete emptying.
- Increase in spontaneous contractions of detrusor muscle.
- Less able to postpone urination.
- Less urethral closing pressure.

Globally, the number of people aged 60 or over is expected to more than triple by 2100, increasing from 841 million in 2013 to 2 billion in 2050 and close to 3 billion in 2100. In ageing populations (source: UN), it is the older persons segments that grow faster with the higher age ranges becoming the largest. As the number of people aged 60 or over is expected to more than triple by 2100, that of people aged 80 or over is projected to increase almost seven-fold by 2100, increasing from 120 million in 2013 to 392 million in 2050, and 830 million in 2100. However, despite affecting a growing number of the older population, urinary incontinence should not simply be accepted as an inevitable part of ageing. As the UN concludes in its report, the challenge is “to ensure that people everywhere will be enabled to age with security and dignity and continue to participate in their societies as citizens with full rights”.

This theme is echoed in various forms of regulations and guidelines that affect those caring for the elderly, with the management of urinary incontinence forming a key element of assessing nursing homes in many countries. For instance, in the US the CMS (Centers for Medicare and Medicaid Services) requires nursing homes to adhere to guidelines known as F-Tag 315, with compliance failure often used as a basis for negligence claims. The essential points of F-Tag 315 are:

- Each resident who has urinary incontinence is identified, assessed, and provided with appropriate treatment and services to achieve or maintain as much urinary function as possible.
- An indwelling catheter is not used unless there is medical justification.
- Services are provided to restore or improve bladder function to the extent possible, including after the removal of the catheter.
- A resident, with or without a catheter, receives the appropriate care and services to prevent infections to the extent possible.

Tapping into a major demographic trend

Urinary incontinence has long been a major problem for nursing homes and those providing long-term residential care. Studies across the world report a prevalence of urinary incontinence in nursing homes in five European countries, North America and Japan that varied between 43% and 65% (in some facilities the rate approaches 80%), with the prevalence rising as the age of the resident increases. A useful review highlights that urinary incontinence is not a static condition but is dynamic, with a significant number of patients moving back and forth from continence to incontinence. The data for community-dwelling older people is less robust, but a prevalence range between 15% and 30% is considered a fair estimate. Loss of continence is often the key factor for transferring an older person from community-based living into a residential setting, hence earlier and better assessment and rehabilitation could have major social and economic impacts.

Urinary incontinence care directly accounts for around 25% of the costs of nursing home care. Management with indwelling catheters results in the lowest direct costs, but the indirect costs (as well as the potential increased morbidity and mortality risks) tend to outweigh any cost savings. Guidelines mean containment in consumable absorbent products has become the mainstay of toileting programmes; direct costs include adult briefs, gloves, cleansing solutions, disposable washcloths and linens as well as staff time, and indirect costs such as waste handling and disposal. Active evaluation and treatment can result in considerable cost savings and improved wellbeing for both patients and caregivers.

Nursing home patients are a heterogeneous group and a specific assessment at admission is important in the management of continence, especially in the prevention of new incontinence. An appropriate assessment is seen as the starting point of an individualised treatment and management plan. There are a number of effective interventions, for instance prompted voiding is an important method, being valuable in those without or with minor cognitive impairment. Clearly, a number will be appropriately managed longer term with containment methods, but present practice suggests regular assessment to determine if the existing patient plan remains suitable.

Currently, a urinary incontinence assessment consists of a regular (at least hourly) physical check of a resident's toileting over a two-/three-day period, but staffing challenges mean this level of checking is not always possible. This is a disruptive and undignified process for both the carer and resident and is, understandably, not welcomed. The resulting poor quality data means nursing staff tend to have low confidence in such assessments, which, coupled with their time-intensive nature, means few homes tend to perform them as routinely as practice guidelines recommend. Despite these limitations, around 15 million assessments are performed annually worldwide.

Improves care quality, with savings in pads and labour cost

The SIM platform simplifies the assessment by automatically gathering the relevant information and recording events into a personalised bladder diary. The data are collected by a sensor contained in an absorbent incontinence pad that is worn as normal by the patient and a small (waterproof) SIM pod attached to the outside of the pad that transmits the information back to a server.

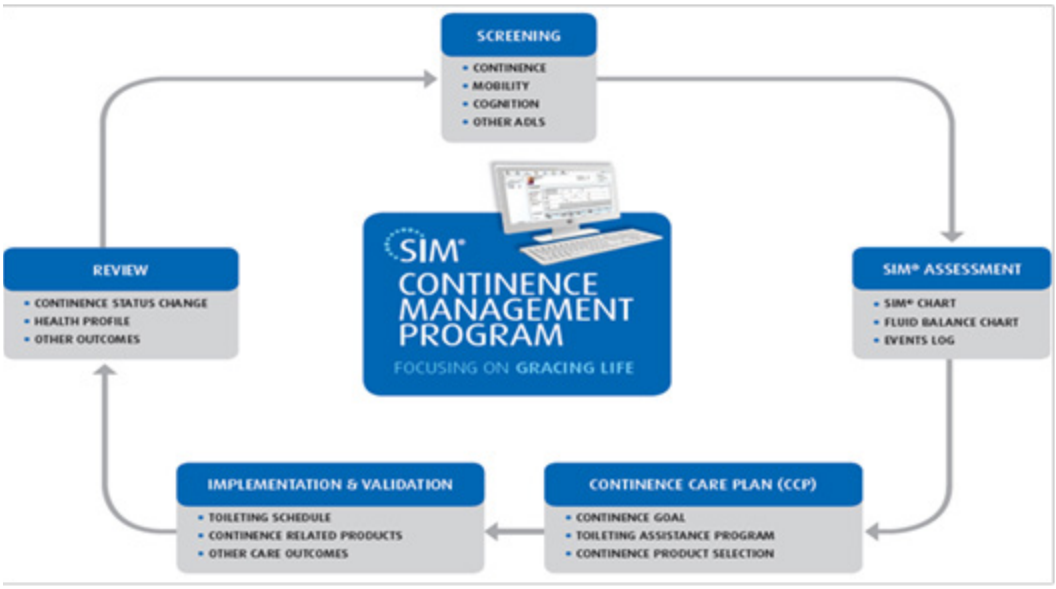
The software (SIM manager) processes this into clinically relevant charts and reports, with the SIM assist application allowing carers to use android devices, such as tablets or smartphones, to monitor and annotate the records in real time. The result is a comprehensive assessment that generates effective personalised care plans for each patient. The data can be used to support additional payment claims (eg Medicare) and audit trails for clinical and regulatory purposes.

Clearly, the clinical benefits are the same as with well-performed manual assessments, but the SIM platform brings financial benefits. Apart from the reduced labour input during the assessment, there are longer-term staffing gains from the more effective toileting activity. These clinically relevant

personalised plans also allow for better and more effective use of incontinence products, as well as correspondingly lower cleansing and waste-handling costs.

At the nursing home level, administrative efficiencies arise from the automatically generated certification and accreditation reports, as well as easily documented claims for additional reimbursement for specific residents (eg for the US Medicare Prospective Payments System and the Australian Aged Care Funding Instrument). The SIM platform has been shown to improve health care outcomes and its implementation can help reduce the risk of sanctions or negligence claims.

Exhibit 1: SIM continence management programme



Source: Simavita

Two research studies undertaken in Australia using SIM (Yu et al 2012 and Fish & Traynor 2013) have been presented. Key findings included that data from manual assessments were viewed as inconsistent and unreliable, and the resulting care plans were not adhered to. This leads to a 'one size fits all' approach, with 'toilet rounds' (taking groups of residents to the toilet at the same predetermined times each day) but these were rarely practised properly due to staffing constraints. In contrast, the SIM-based assessments resulted in statistically significant increases in care plan adherence and more effective toileting.

Simavita estimates its SIM platform can reduce the direct costs of assessment (mainly labour) by between a quarter and a third (depending on the setting), with a similar saving in the use in 'everyday' pad costs being sustained over the longer term, and additional savings to the residential home in labour costs of around 12%. The experience following SIM implementation in 44 Australian sites (2,367 beds) showed a 25% reduction in incontinence product costs, a 23% reduction in waste handling costs and a 21% improvement in effective toileting.

A global need that requires local approaches

The SIM platform has been developed in Australia, with the earlier models field tested in local residential units. The experiences led to operating and functional improvements that are incorporated in the fourth-generation product. These field trials, together with high-profile opinion leader support, mean Simavita and the SIM platform are known across the main target customers. Commercialisation is based on the residential facilities purchasing the SIM platform (hardware and software), which generates upfront revenue at an attractive margin, but the more profitable revenue streams arise from the sale of the consumables (mainly the sensors). Simavita believes it has the resources and positioning to address the Australian markets directly.

Simavita is looking to partner the SIM platform with the leading companies in the relevant field. The approach is flexible to reflect local market needs, ranging from multiple collaborations with strong regional players to a single territory deal for all likely applications as appropriate for the market. Exhibit 2 overleaf details the geographic potential and expected launch timings.

The most commercially attractive opportunity lies within the US, where the nature and size of the market, coupled with a supportive regulatory and legislative environment, suggest a sizeable revenue potential for the SIM platform (the FDA clearance for commercialisation, as a Class II medical device, was granted in August 2013). Simavita has joined up with Medline, a privately held company that manufactures and distributes a wide range of health care supplies to hospitals, surgeries and homes. Medline is a leading US manufacturer and distributor of disposable incontinence products; its continence management programmes seek to integrate the products with clinical education packages and cost containment and reporting tools. Details of the terms of the Medline deal have not been disclosed.

Exhibit 2: Total addressable residential care market for fourth-generation SIM platform

Territory	Number of nursing homes and other residential care	Number of beds (000s)	First possible launch date
Australia	2,800	180	Launched
US	47,200	2,700	May 14
Canada	2,600	250	Q414/Q115
UK	14,500	510	Q115
The Netherlands	2,900	150	Q215
Europe (rest of)	60,000	3,300	Q415
Japan	14,800	740	Q315

Source: Simavita

The SIM platform is an obvious fit within this and training of the initial Medline clinical and sales teams has begun. A soft launch was trialled in early 2014, with customers worth c 2,000 beds signed up in March, and the full launch will follow after Medline's national sales conference in May. Estimates of the US continence market opportunity vary, ranging from $6bn to $20bn depending on the factors included, with the cost per bed ranging from $6,200-7,300 per year. There are around 47,200 nursing homes[1] (15,465 of which are certified) and other residential and long-term care facilities in the US, providing around 2.7 million beds.

Simavita's experience in Australia suggests a 100 bed nursing home in the US can achieve net savings of around $1,580 per bed per year. Simavita and Medline believe the combination of improved patient care, better staffing utilisation, and reduced product costs with full adoption of the SIM platform means they hope to achieve c 10% penetration of this target population by 2018. The estimated revenue per site is A$15,000-70,000 dependant on the size, occupancy, frequency of assessment and consumable used per assessment.

The distribution opportunities for a number of other territories are being evaluated, with the discussions for Canada, the UK and the Netherlands the most advanced. The Canadian market shares many characteristics with the US, being mainly assessment-driven, and SIM usage in the US should flow through and raise awareness there. The European market is heterogeneous, with care models differing from country to country. The UK, the Netherlands, Germany and Nordic countries are likely to be the primary targets. SIM has a CE mark as a Class I medical device and can be marketed across Europe. While Japan has the greatest ageing population problems, the cultural differences mean the right distribution partner is essential. Interestingly, Simavita has been invited by the Municipality of Copenhagen, together with the European healthcare company Abena, to showcase the SIM assessment technology at one of its aged care facilities.

[1] http://www.cdc.gov/nchs/data/nsltcp/long_term_care_services_2013.pdf

Multiple revenue-generating streams

Simavita's development efforts historically have been focused on SIM's applicability within the nursing and residential care settings. The studies confirm SIM is able to track continence effectively, is well understood and easily integrated into other clinical and data management technologies (such as electronic medical records). The experience, together with increasing volumes, has resulted in cost of goods improvements that now allows management to explore a broader range of possible applications.

The developments Simavita is progressing can be summarised as follows:

- Community Care Assessments, essentially the current SIM product but adapted slightly to perform assessments of urinary continence for the elderly in the home or community setting.
- Everyday SIM, a next generation low-cost sensor that could be embedded into an incontinence product designed for routine use within the nursing and residential care settings.
- Everyday SIM for community care, the same low-cost sensor in a pad/diaper with the software/hardware adapted for use in the home and community settings.
- Everyday Retail SIM, basically the community care offering but sold through retail outlets by partnering with the leading producers of incontinence pads and diapers.

Community care is an important and increasing market segment. Incontinence issues are often the trigger that initiates the admission into residential care, yet with the right care many elderly people can stay in their own homes longer, which is not only better for their health and happiness, but better for healthcare budgets struggling to take the strain of an ever-growing elderly population. An optimised care-at-home service (which identifies those at risk and treats them holistically) helps minimise the impact of incontinence on the lives of patients, care-giving relatives and staff, enabling them to retain their independence in their own homes for longer.

The SIM Community Care technology is being finalised and is scheduled for release by end-2014/early-2015. The urinary continence assessment would be performed in the home or community setting with the information collated for use as required. Distribution would be through the same channels as the SIM residential care platform, with most of the target audience already known due to other continence products and services being sold to them. The size of the market is significantly larger in terms of population, but we believe the rate of uptake will be slower since the clinical and financial benefits are less visible to this still largely poorly informed group.

As the name suggests, Everyday SIM is designed to be worn every day rather than just during the two to three days of an assessment. Much depends on getting the costs down sufficiently to make this economically compelling in a residential setting. The need is clear since with the right products and care routines the 'consequence costs (such as unnecessary product consumption and extra work, laundry and skin treatments) of using these on properly targeted residents can be significant. It is estimated that just halving the incidence of leakage can result in a reduction of total costs by up to 10%. The data and instant feedback can be used to improve patient wellbeing, as well as to select the appropriate products and deploy care staff more effectively.

The data the SIM platform generates and collects is valuable not just at the patient and care home level, but can provide useful information for incontinence product manufacturers and suppliers, public health agencies, and other related bodies. Simavita has been approached with a view to selling this data (suitably anonymised) and is considering the merits of doing so.

We have not included any of these potential revenue streams in our forecasts and valuation, which are based solely on the SIM platform in the residential care setting, with any progress on these and other projects being viewed as upside.

Sensitivities

Simavita's business is subject to the usual risks associated with any emerging technology: commercialisation timelines can slip, rates of adoption may disappoint, a proprietary technology can be overtaken by a novel alternative approach, patent litigation is an ever-present threat, as well as regulatory and commercial risks. Other sensitivities include partnering assumptions (as these are largely undisclosed), future collaboration deals (further territories are required), currency impacts (as a result of operations in international markets), and the loss of key management.

Simavita's model of licensing out its products for commercialisation means its revenues are dependent on its partners' ability to successfully launch and market them. Reliance on a key distribution partner may result in an asymmetric relationship developing; for instance, Simavita may find itself at risk of its margin being squeezed. Additionally, the partners' commitment to a particular product range may change over time, resulting in either a decrease in promotional support or even exit from the segment. Management has sought to limit these risks through the use of minimum sales thresholds, target timelines and options to regain the rights.

The protracted development times mean the clock has been ticking on the original issued patents, reducing the protected commercial product lives. However, the optimising of the technology has generated new patent filings that could extend protection. Simavita has also sought to actively improve its IP position, eg securing Salusion's patents over an RFID technology for the detection of saturation conditions in adult incontinence pads and diapers. Additionally, the proprietary know-how associated with the SIM platform represents a further barrier to entry for potential competitors.

Sensitivities about slippage in product development timelines and the risks on market launches and adoption are not new, nor are they specific to Simavita alone. Nonetheless, the impact is more commercially significant for a smaller company than for a larger, better diversified multinational.

Valuation

Simavita operates in a very specialised field and its unique position means there are no directly comparable quoted peers. Equally, the company has yet to post meaningful revenues and earnings so using earnings-based metrics (such as P/E, PEG, and EV/EBITDA) would add little value.

Exhibit 3: Base-case DCF valuation

Key assumptions	NPV (A$m)
Free cash flow model 2014-18	0.8
Tapering growth free cash flows 2019-28	101.6
Terminal value (-10% pa decline assumed)	22.3
Total NPV	107.3
Cash/debt (FY14)	4.0
Valuation	**105.5**
Valuation/share – basic (A$)	**1.80**
Valuation/share – diluted (A$)	**1.55**
Discount rate (%)	*12.5*
Tax rate (%)	*22*

Source: Edison Investment Research

We believe that as an early-stage company Simavita is best valued using a DCF-based valuation (see Exhibit 3). We have employed a three-phase DCF, using our forecasts (based on company guidance) for free cash flows from our model from FY14 to FY18 to derive the first part of our NPV. The second phase sees the expected growth rates tapering from a high of 11% in 2019 to 2% in 2028, with a terminal value applied after that (using a -10% pa decrease to reflect a sales decline post 2028). We have used a 12.5% discount rate and assume a tax rate of 22% beyond our

forecast period (bearing in mind the high proportion of North American revenues). Our assumptions during the second phase of the DCF reflect the uncertainty over the rate of international uptake and expansion, so we prefer to be relatively cautious in our modelling. History has many examples where the adoption of promising technologies has failed to live up to initial expectations. Yet the opportunities are such that we believe there is scope for upgrades to our forecasts over the next three years as the new territories and market segments come on stream.

Even so, the approach suggests that, on our base valuation, Simavita is currently worth A$104m, which compares to the market capitalisation of A$29.4m. On a per share basis, using the basic number of shares in issue of 58.8m we derive a value of A$1.78 per share, once the 9.2m of options and warrants (the strike price range from A$0.41-0.82, with expiries between three to five years) the value is A$1.53 per share.

A sensitivity analysis shows that if revenues were to be 20% higher than our base case, the valuation would be A$147.7m, equivalent to A$2.51 a share (basic) and A$2.17 a share on a diluted basis. The equivalent valuation with revenues 20% lower would result in the valuation dropping to A$61.2m, with the per share valuation being A$1.04 basic and A$0.90 diluted.

Financials

For FY14 we expect revenues of A$0.5m (against A$0.3m the previous year), as only the sales from the Australian beta sites flow through. The increased investment in R&D should see the spend rise from A$1.7m to A$2.1m, with the Sales, Distribution and Marketing (S,D&M) line also rising similarly from A$1.6m to A$2.5m. The tight cost control on General and Administration (G&A) expenditure is expected to be offset by the inclusion of the listing costs (including a number of essentially one-off legal costs), which means we expect the operating loss to widen from A$7.5m to A$9.6m. With a lower interest charge and a similar R&D tax credit, we expect the loss after tax to increase from A$7.4m to A$8.5m in 2014.

Looking ahead, our forecasts only include known revenue streams (from sales in Australia and the US) and so possible income from the providing of data to third parties or from the SIM platform developments are viewed as potential upside. For FY15 we expect revenues to increase A$6.0m due to a combination of direct sales in Australia and the first year of US sales (Medline is expected to launch in May 2014). R&D spend is forecast to rise slightly to A$2.2m, with S,D&M up to A$2.7m. The G&A line is forecast to drop to A$4.0m, resulting in the operating loss narrowing to A$5.6m and loss after tax of A$4.4m. For FY16 we expect the continued roll out across Australia and the US, coupled with sales from the initial launches in Canada and one European market, to result in revenues climbing to A$15.7m. A small increase in R&D investment to A$2.3m, together with a spend of A$3.0m in S,D&M and A$4.1m in G&A, should see operating break even achieved during H216 (with a small A$0.4m loss posted for FY16). The R&D tax credit should see the net loss transform into a net profit of A$0.7m.

Simavita raised US$12.5m (c A$14m) in December 2013 at the time of the TSX-V listing, with a further A$0.4m added in February 2014 with the ASX listing, and A$7.7m of loans converted into equity during the year too. These inflows, together with the projected monthly burn rate of A$600k, suggest cash of around A$4m at FY14. The model implies Simavita has sufficient financial resources to reach cash self-sustainability, noting that elements of the R&D (improvements and innovations to current products) and S,D&M (preparations for some European and Japanese distribution) spend are largely discretionary and the phasing of expenditure can be flexed to match the expected cash inflows. Nonetheless, Simavita may choose to use debt or an equity raise to ensure its marketing and product development plans are not compromised.

Exhibit 4: Financial summary

A$m	2012	2013	2014e	2015e	2016e
30-June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	0.7	0.3	0.5	6.0	15.7
Cost of Sales	(0.1)	(0.2)	(0.1)	(2.5)	(6.7)
Gross Profit	0.6	0.1	0.3	3.5	9.0
EBITDA	(7.7)	(7.3)	(9.4)	(5.4)	(0.4)
Operating Profit (before amort. and except.)	(7.8)	(7.5)	(9.6)	(5.6)	(0.4)
Intangible Amortisation	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating Profit	(7.8)	(7.5)	(9.6)	(5.6)	(0.4)
Net Interest	(0.3)	(1.1)	(0.1)	(0.1)	(0.1)
Profit Before Tax (norm)	(8.0)	(8.5)	(9.7)	(5.6)	(0.5)
Profit Before Tax (IFRS)	(8.0)	(8.5)	(9.7)	(5.6)	(0.5)
Tax	1.1	1.2	1.2	1.2	1.2
Profit After Tax (norm)	(6.9)	(7.4)	(8.5)	(4.4)	0.7
Profit After Tax (IFRS)	(6.9)	(7.4)	(8.5)	(4.4)	0.7
Average Number of Shares Outstanding (m)	0.0	0.0	58.8	59.8	60.8
EPS - normalised (c)	na	na	(14.4)	(7.4)	1.2
EPS - normalised and fully diluted (c)	na	na	(12.4)	(6.4)	1.0
EPS - (IFRS) (c)	na	na	(14.4)	(7.4)	1.2
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	82.8	35.2	75.0	58.8	57.5
EBITDA Margin (%)	na	na	na	na	na
Operating Margin (before GW and except.) (%)	na	na	na	na	na
BALANCE SHEET					
Fixed Assets	0.4	0.3	0.3	0.4	0.8
Intangible Assets	0.1	0.1	0.1	0.1	0.1
Tangible Assets	0.3	0.2	0.2	0.3	0.7
Investments	0.0	0.0	0.0	0.0	0.0
Current Assets	3.1	2.2	4.4	1.7	3.6
Stocks	0.3	0.3	0.5	0.6	0.7
Debtors	1.2	1.1	0.4	1.0	2.6
Cash	1.5	0.7	3.5	0.1	0.3
Other	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(1.5)	(7.7)	(0.7)	(1.4)	(1.9)
Creditors	(0.8)	(0.9)	(0.7)	(1.4)	(1.9)
Short term borrowings	(0.8)	(6.8)	0.0	0.0	0.0
Long Term Liabilities	(2.9)	(3.4)	0.0	0.0	0.0
Long term borrowings	(2.9)	(3.4)	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Net Assets	(1.0)	(8.6)	3.9	0.6	2.5
CASH FLOW					
Operating Cash Flow	(6.7)	(7.0)	(7.8)	(4.3)	(0.5)
Net Interest	(0.1)	(0.2)	0.0	0.0	0.0
Tax	0.7	1.2	1.2	1.2	1.2
Capex	(0.2)	(0.0)	(0.2)	(0.3)	(0.5)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Financing	2.3	3.8	22.1	0.0	0.0
Other	(0.2)	(0.0)	(2.0)	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	(4.2)	(2.2)	13.2	(3.4)	0.2
Opening net debt/(cash)	(2.2)	2.2	9.4	(3.5)	(0.1)
Other	(0.2)	(5.0)	(0.4)	0.0	0.0
Closing net debt/(cash)	2.2	9.4	(3.5)	(0.1)	(0.3)

Source: Simavita accounts, Edison Investment Research

EDISON

Contact details	Revenue by geography
Level 13, 54 Miller Street, North Sydney NSW 2060 Australia Tel +61 (0)2 8405 6300 www.simavita.com	N/A

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 13-14e	N/A	ROCE 13	N/A	Gearing 13	N/A	Litigation/regulatory	◖
EPS 13-16e	N/A	Avg ROCE 13-16e	N/A	Interest cover 13	N/A	Pensions	○
EBITDA 13-14e	N/A	ROE 13	N/A	CA/CL 13	N/A	Currency	◖
EBITDA 13-16e	N/A	Gross margin 13	N/A	Stock days 13	N/A	Stock overhang	○
Sales 13-14e	N/A	Operating margin 13	N/A	Debtor days 13	N/A	Interest rates	○
Sales 13-16e	N/A	Gr mgn / Op mgn 13	N/A	Creditor days 13	N/A	Oil/commodity prices	○

Management team

CEO: Philippa Lewis

Appointed director of the company in 2007. Has over 30 years of local and international business experience including retail, healthcare, construction, international technology transfer, franchising, patent management, import, distribution and manufacturing. Previously CEO and founder of Sanicare, an Australasian import and distribution business for adult incontinence products. This grew to be a market leader with over $20m in turnover and was sold to Bunzl in 2005. Academic qualifications span business and law and a member of the Institute of Company Directors and the Institute of Arbitration and Mediation.

FD: Thomas G Howitt

Appointed CFO in April 2014, having served as a director of the company for almost 10 years. He played a key role in the acquisition of Simavita Holdings Limited, which now forms the basis of the company's operations. He has served as finance director and company secretary for a number of companies listed on ASX, NASDAQ, TSX and NZSE. Has worked as a senior taxation consultant for Ernst & Young and in the investment banking industry. Mr Howitt is a current member of the Victorian Branch Committee of AusBiotech Ltd.

Chairman: Peter Cook

Appointed chairman of the company in February 2014. CEO of Biota Pharmaceuticals, Inc. from 2005 to 2012. CEO of Orbital Corporation Ltd from 2002 to 2005. Prior to Orbital, he was deputy managing director of Invetech Pty Ltd, president of Protection Products Division at Ansell, CEO of Faulding Hospital Pharmaceuticals and director of R&D for Nicholas Kiwi. Chairman of Quickstep Holdings since 2005 and a director of Nabi Biopharmaceuticals since 2012. He is a Fellow of Monash University. He holds a masters degree in pharmacy and post graduate qualifications in management from RMIT University.

Principal shareholders	(%)
Dussman (Devonia Investment)	23.86
Dussman (Charolais Super Fund)	10.97
SIM Finance	5.99
Inspiration Super Fund	3.40
Dussman (The Devonia No 2)	3.06
Jolimont Lodge (Powell Family Super Fund)	2.68
Dussman	2.14
Dyspo Super Fund	1.70

Companies named in this report

Medline, Abena

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