

Respiri

Focus on cost optimisation

To support an optimal roll-out of its US commercialisation strategy for its wheezo device, Respiri recently announced several cost-saving initiatives, the latest being a reduction in the CEO's and executive chairman's FY23 cash compensation by a combined A\$180k. In exchange, the company will offer bonus/milestone payments, contingent on achieving certain patient recruitment targets (elucidated below). This announcement follows management's recent establishment of a Centre of Digital Innovation Excellence in the Philippines to drive efficiencies with a lower cost footprint (estimated to reduce IT costs by c A\$700k, along with a 30% improvement in productivity). All cost savings will be redirected towards onboarding patients in the US. We also note that Respiri recently raised A\$1.6m through share placements to support its US roll-out plans (40m shares to be issued on 7 October versus 23 September previously). Our valuation remains unchanged at A\$0.24 per share.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	PBT* (A\$m)	EPS (c)	P/Revenue (x)	P/E (x)
06/21	1.4	(8.4)	(8.5)	(1.22)	22.3	N/A
06/22	0.8	(6.2)	(6.3)	(0.87)	41.4	N/A
06/23e	5.0	(2.3)	(2.3)	(0.29)	6.4	N/A
06/24e	8.1	0.4	0.4	0.03	4.0	121.3

Note: *EBITDA, PBT & EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. FY23 & FY24 EPS adjusted for new shares.

The A\$180k reduction in FY23 cash remuneration consists of A\$100k from CEO Marjan Mikel and A\$80k from executive chairman Nicholas Smedley. To compensate for the forgone cash compensation, Respiri has established certain patient recruitment targets up until 30 June 2023, achievement of which will trigger bonus/milestone payments. Also as part of the salary restructuring, all outstanding vested options held by the two senior executives (totalling 22.5m) were cancelled.

FY23 milestone-led bonus payments						
	Marjan Mikel	Nicholas Smedley				
5,000 contracted patients	A\$34,000	A\$29,070				
7,500 contracted patients	A\$34,000	A\$29,070				
10,000 contracted patients	A\$34,000	A\$29,070				
12,500 contracted patients	A\$48,000	A\$17,790				

Source: Company press release, 5 October 2022.

Given that two hospital clients have already been onboarded (patient recruitment expected to commence shortly) and the company has indicated a strong sales pipeline, we believe these targets to be achievable, provided feedback and early trends from pilot programmes are positive.

Respiri's efforts to slim down its cost structure have already achieved savings through restructuring its manufacturing and marketing efforts. This includes a significant reduction in wheezo manufacturing costs following its collaboration with Entech Electronics (February 2020) and materially lowering SG&A expenses, courtesy of the partnered remote patient monitoring model it applies in the US. Offshoring IT-related activities to the Philippines is another initiative by the company to further reduce costs while accessing a wide specialist pool. Compensation cuts, in contrast, appear to be a more short-term fix to maximise the use of available resources during the crucial initial market push.

Cost savings update

Healthcare equipment

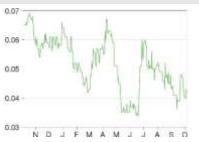
6 October 2022

OTCOR

A\$0.04 **Price** Market cap A\$32m US\$0.6/A\$ Pro-forma net cash (A\$m) at September 2022 including autumn 2022 equity raise 761.8m Shares in issue (excluding 40m shares to enter circulation on 7 October 2022) 83% Free float Code RSH Primary exchange ASX

Share price performance

Secondary exchange



Business description

Respiri is an Australia-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.

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