Date
26 September 2018

Theme
Company Update

WILSONS

Company
Nanosonics (NAN)

New BUY: One dirty job after another

We upgrade Nanosonics shares to a BUY rating with a 14% lift in price target to $4.00 per share. Our valuation change results from putting more structure and analysis around our approach to new product launches. One or more new infection prevention solutions are planned by the end of FY20. The company's foundation 'Trophon' business (ultrasound probe disinfection solution) is in its second product iteration now, providing a stable platform for really explosive multiproduct growth into the mid-FY20s. Nanosonics has pegged its business to the rise and rise of healthcare-related infection control, auditing, traceability and compliance. There is another 'data and technology driven' chapter developing in the background which could assist clinical customers stay in control of infection control, guideline compliance and facility accreditation. BUY.

Key points

New product scenarios explored. Although Nanosonics' new products are unidentified, the company has provided some qualitative information to support preliminary assessment. On balance, we feel comfortable using the Trophon EPR product's historical (actual) market introduction as a 'proxy launch' to integrate from FY21 (representing product platform #2) and again from FY22 (approximating #3). We would also expect high gross margins (≥70%) and decent SG&A leverage selling multiple products into infection control departments.

Wilsons' view. FY19e forecasts are well supported by the diversified sales models in place. We understand that reseller GE Healthcare is re-building inventory in the USA, their order mix trending towards the new 'connected' Trophon2 product. Our assessment is that GE's US activity will be unchanged as their competitors also seek to include Trophon in ultrasound tenders. Germany and Japan are shaping as the next jurisdictions of interest.

Forecasts. Near term EPS changes are minimal. The introduction of new products could lift mid-term EPS growth CAGR to 20% (from 10-12% owing to the Trophon business alone).

Valuation. Our new 12-month target price of $4.00/sh is based on DCF which now incorporates some preliminary estimates for new product launches in FY21-22. Un-risked, these opportunities could support up to $4.85 per share but we have controlled their contribution given the uncertainty on launch timing.

Risks and catalysts

Risks: a) slower-than-forecast sales growth; b) slow business development in Europe; c) manufacturing and regulatory risks; d) investment limiting profit growth. **Catalysts**: a) revenue, cash flow and installed base reporting; b) potential partnering in new markets; c) new product launches.

Earnings forecasts					
Year-end June (AUD)	**FY17A**	**FY18A**	**FY19F**	**FY20F**	**FY21F**
NPAT rep ($m)	26.2	5.8	8.9	30.2	35.5
NPAT norm ($m)	13.9	5.6	8.9	30.2	35.5
Consensus NPAT ($m)			8.7	25.2	34.1
EPS norm (cps)	4.6	1.9	3.0	10.1	11.8
EPS growth (%)	10021.9	-59.5	59.7	238.2	17.7
P/E norm (x)	68.7	169.8	106.3	31.4	26.7
EV/EBITDA (x)	61.6	148.1	91.7	28.4	17.2
FCF yield (%)	1.7	1.0	1.2	2.7	3.8
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Source: Company data, Wilsons estimates, S&P Capital IQ

Recommendation	**BUY**
12-mth target price (AUD)	**$4.00**
Share price @ 25-Sep-18 (AUD)	$3.16
Forecast 12-mth capital return	26.6%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	**26.6%**

Market cap	$946m
Enterprise value	$868m
Shares on issue	299m
Sold short	9.3%
ASX 300 weight	0.0%
Median turnover/day	$3.3m

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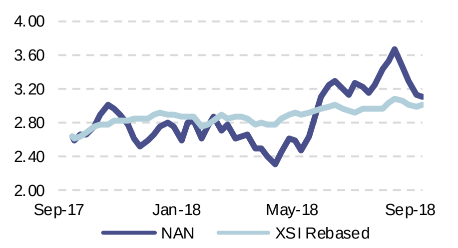
FUNDAMENTAL INSIGHTS

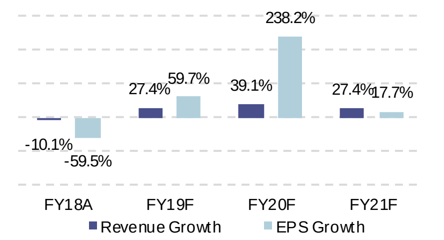
12-mth price performance ($)



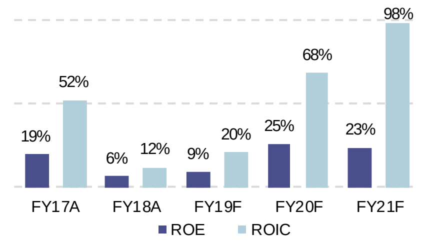
	1-mth	6-mth	12-mth
Abs return (%)	-16.2	17.8	18.3
Rel return (%)	-13.4	11.3	4.1

Key changes				
		21-Aug	**After**	**Var %**
NPAT:	**FY19F**	8.9	8.9	0.0%
norm	**FY20F**	30.2	30.2	0.0%
($m)	**FY21F**	35.7	35.5	-0.7%
EPS:	**FY19F**	3.0	3.0	0.0%
norm	**FY20F**	10.1	10.1	0.0%
(cps)	**FY21F**	11.9	11.8	-0.7%
DPS:	**FY19F**	0.0	0.0	0.0%
(cps)	**FY20F**	0.0	0.0	0.0%
	FY21F	0.0	0.0	0.0%
Price target:		3.50	4.00	14.3%
Rating:		**HOLD**	**BUY**	

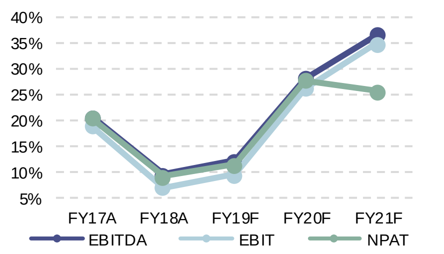
Growth rates



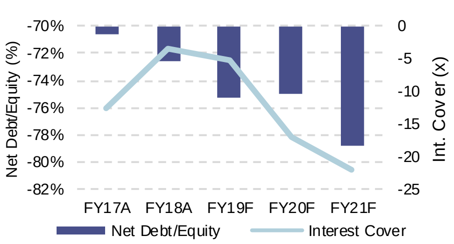
Returns



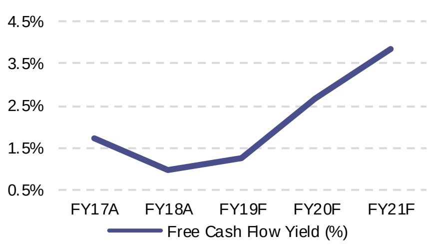
Margin trends



Solvency



Free cash flow yield



Interims ($m)

	1H18A	2H18A	1H19E	2H19E
Sales revenue	30.0	30.7	34.5	42.8
EBITDA	3.8	2.1	2.1	7.3
EBIT	3.2	1.2	1.1	6.4
Net profit	**2.2**	**3.4**	**1.8**	**7.1**
Norm EPS	**0.7**	**1.1**	**0.6**	**2.4**
EBIT/sales (%)	10.5	3.9	3.3	14.9
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0

Key assumptions

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Revenue growth (%)	44.3	3.4	92.6	57.8	-10.1	27.4	39.1	27.4
EBIT growth (%)	-56.0	105.5	-93.8	-3,673.8	-66.0	72.1	279.4	69.1
NPAT growth (%)	-54.8	109.6	-102.3	10,893.7	-59.7	59.7	238.2	17.7
EPS growth (%)	**-56.4**	**102.4**	**-102.3**	**10,021.9**	**-59.5**	**59.7**	**238.2**	**17.7**
EBIT/sales (%)	-13.1	-26.1	-0.8	19.0	7.2	9.7	26.5	35.2
Tax rate (%)	1.2	0.1	7.4	0.0	-3.0	0.0	0.0	29.5
ROA (%)	**-8.4**	**-9.6**	**-0.4**	**12.2**	**3.7**	**4.8**	**16.5**	**25.0**
ROE (%)	**-12.7**	**-12.2**	**0.2**	**15.1**	**5.5**	**6.6**	**20.0**	**21.0**

Financial ratios

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
PE (x)	-312.8	-154.5	6,843.3	67.6	167.1	104.6	30.9	26.3
EV/EBITDA (x)	-470.6	-183.5	901.6	61.6	148.1	91.7	28.4	17.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	-0.3	-0.3	0.3	1.7	1.0	1.2	2.7	3.8
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Profit and loss ($m)

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Sales revenue	21.5	22.2	42.8	67.5	60.7	77.3	107.6	137.0
EBITDA	-1.8	-4.7	1.0	14.1	5.9	9.5	30.5	50.4
Depn & amort	1.0	1.1	1.3	1.3	1.5	2.0	2.1	2.3
EBIT	**-2.8**	**-5.8**	**-0.4**	**12.8**	**4.4**	**7.5**	**28.5**	**48.2**
Net interest expense	-0.2	-0.3	-0.5	-1.0	-1.2	-1.4	-1.7	-2.2
Tax	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	14.8
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	**-2.6**	**-5.5**	**0.1**	**13.9**	**5.8**	**8.9**	**30.2**	**35.5**
Abns/exts/signif	0.0	0.0	0.0	12.3	0.0	0.0	0.0	0.0
Reported net profit	**-2.6**	**-5.5**	**0.1**	**26.2**	**5.8**	**8.9**	**30.2**	**35.5**

Cash flow ($m)

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
EBITDA	-1.8	-4.7	1.0	14.1	5.9	9.5	30.5	50.4
Interest & tax	0.0	0.3	0.0	0.0	-0.1	0.0	0.0	-14.8
Working cap/other	-0.7	2.0	2.3	2.3	3.3	2.2	-5.4	0.7
Operating cash flow	**-2.6**	**-2.4**	**3.2**	**16.4**	**9.0**	**11.7**	**25.1**	**36.3**
Maintenance capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	**-2.6**	**-2.4**	**3.2**	**16.4**	**9.0**	**11.7**	**25.1**	**36.3**
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth capex	-0.5	-2.3	-1.1	-1.1	-2.3	-2.5	-2.8	-3.1
Invest/disposals	0.0	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0
Oth investing/finance flows	-0.2	0.6	-2.1	-0.1	-0.7	0.0	0.0	0.0
Cash flow pre-financing	**-3.3**	**-4.1**	**-0.2**	**15.1**	**6.0**	**9.2**	**22.3**	**33.2**
Funded by equity	0.3	28.0	0.1	0.0	0.0	0.0	0.0	0.0
Funded by debt	0.2	0.0	3.8	-0.4	-0.4	0.0	0.0	0.0
Funded by cash	2.7	-23.9	-3.6	-14.7	-5.6	-9.2	-22.3	-33.2

Balance sheet summary ($m)

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Cash	21.2	45.7	48.8	63.0	69.4	78.6	101.0	134.1
Current receivables	5.7	3.9	7.7	8.9	8.6	9.2	15.1	18.0
Current inventories	4.2	6.2	6.9	7.7	8.9	10.0	14.0	16.0
Net PPE	1.8	3.6	3.3	3.5	5.3	5.8	6.5	7.4
Intangibles/capitalised	0.0	0.0	0.0	14.1	14.8	14.8	14.8	14.8
Total assets	**33.5**	**60.4**	**68.2**	**99.3**	**109.2**	**120.6**	**153.7**	**192.6**
Current payables	3.0	2.7	4.6	3.7	4.4	6.0	8.0	10.6
Total debt	8.1	0.0	1.3	1.4	0.9	0.9	0.9	0.9
Total liabilities	**13.1**	**15.7**	**11.5**	**12.0**	**14.9**	**17.4**	**20.3**	**23.8**
Shareholder equity	**20.4**	**44.7**	**56.7**	**87.3**	**94.3**	**103.2**	**133.4**	**168.9**
Total funds employed	**28.5**	**44.7**	**58.0**	**88.6**	**95.2**	**104.2**	**134.3**	**169.8**

Nanosonics Limited (NAN) – Fundamentals never better

Investment thesis

Worldwide, healthcare payers are putting more pressure on hospitals and other care settings to deliver safe healthcare to patients with less funding. Accordingly, compliance with infection control procedures and clinical performance is inextricably linked to funding outcomes. We believe this to be the fundamental driver behind the adoption of Nanosonics' ***trophon*** high level disinfection solution, which remains in global growth phase and is in its second product iteration. Separately the company is working to develop new infection control solutions for its core area of expertise: sensitive medical devices that need extensive 'reprocessing' including high-level disinfection that cannot be sterilised using conventional methods (eg. steam autoclaves, irradiation). Devices that can perform well clinically plus automate data capture and reporting (clinical performance, traceability) will win in this marketplace. Nanosonics has developed into one of the premier 'medtech' companies in Australia having listed on the ASX in 2006. Their business enjoys long-dated structural demand growth, annuity style earnings at attractive margins, simple cash flow dynamics and high ROE.

Outlook

The launch of next generation Trophon2 should help sustain double-digit installed base growth in the USA during this next phase of market adoption. Recent results show that the diversification of capital equipment sales model (direct sale, resellers, full service distribution, managed equipment services contracts, rental schemes) has sustained installed growth in a number of jurisdictions. The Trophon launch is now moving into the second third of the US market and may double UK placements for the second year running. The value resides in the installed base, each Trophon unit generating approximately $3,000 in 'annuity' consumables and servicing revenue. We are positive on the outlook in FY19, comfortable that the transition from Trophon EPR to Trophon2 is being achieved with minimum disruption. In the UK, the rapid installed base growth under MES contracts should have a material effect on earnings from 2H19. Germany and Japan may start to show activity in 2H19 but are more likely to factor in FY20. Nanosonics' US business changes dramatically for the better in FY20 when it assumes complete control of its consumables resupply client base.

Valuation

Our foundation DCF valuation for Nanosonics model was originally based on the Trophon business alone ($3.00 per share) but now incorporates capital investments and returns from two new product platforms. Although those products are unidentified, the company has provided some qualitative information to support preliminary assessment. On balance, we feel comfortable using the Trophon product's historical (actual) market introduction as a 'proxy launch' to integrate from FY21 (representing product platform #2) and again from FY22 (approximating #3).

Feeding two new products into the model supports DCF valuations up to $4.85 per share with the central DCF parameters unchanged. We expect both platforms to feature high gross margins (≥70%) and offer some SG&A leverage, selling to infection control departments. We have 'risked' the new product contribution by ~50% and set a new price target of $4.00 per share. Recommendation upgraded to BUY.

Valuation

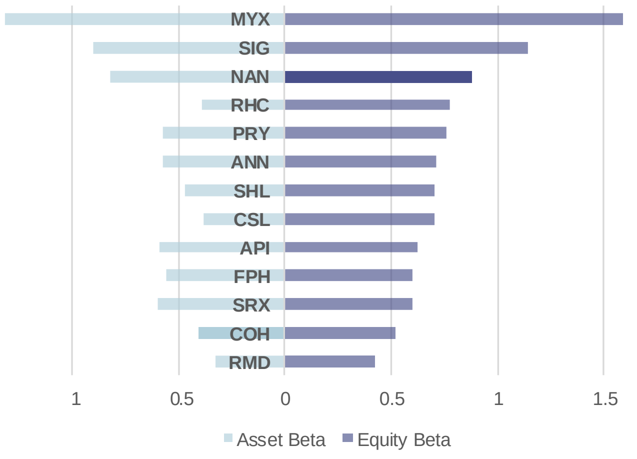
Base case DCF valuation for the international Trophon business

We value Nanosonics shares using a discounted cash flow (DCF) model which calculates a 12-month price target of $3.00 per share attributable to Trophon alone. Our model provides an explicit free cash flow forecast to FY29, treating that year as the terminal year. We estimate Nanosonics' weighted average cost of capital at 8.0%. Notes on the model:

USA

- **Installed base (IB)**. We model the IB reaching 40,000 devices in FY26 (from 15,620 at end of FY18, implying 14% CAGR). From FY26 we model a replenishment cycle based on ~7 year useful life. We do not see the availability of Trophon-2 (T2) as incremental – but as a means of sustaining capital equipment sales through the rest of the product adoption cycle. Average selling prices vary between US$5,500 and US$8,000 depending on sales model (direct, resellers or rental schemes). We model ~A$3K per device per annum including servicing and accessories. Note that from FY20 Nanosonics will be the exclusive supplier of consumables in the US market.
- **ROW.** We model the IB reaching 16,000 devices in FY26 (from 2,120 at end of FY18, implying 29% CAGR). Note that the majority of our ROW sales forecasts contemplate alternative sales models – most notably the managed equipment services (MES) contracts that are popular in the UK, supporting 75-100% annual growth. These models typically don't result in an up-front capital equipment (Trophon) sale but employ (higher) bundled consumables and servicing pricing.
- **Margins**. Gross margins trending towards 80% as sales mix becomes dominated by consumable items. Model an 'all-in' EBITDA margin of over 40% of net sales (SG&A typically >30% and R&D tending to 7%-8% of net sales).

Figure 1: Equity and asset (unlevered) betas for leading Australian healthcare stocks



Source: Wilsons' estimates based on 5-yr weekly returns

Table 1: Nanosonics DCF framework summary – international Trophon business (prior to new products)

A$m	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	→FY29 (TY)
Post-tax EBIT	4.5	7.5	28.5	33.6	37.5	43.3	48.7	52.0	66.6
D&A	1.6	2.0	2.1	2.3	2.6	3.0	3.4	3.9	6.9
ChgWC	3.3	2.2	(5.4)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)
Capex	(2.0)	(2.5)	(2.8)	(3.1)	(3.5)	(3.9)	(4.3)	(4.7)	(6.3)
Free cash flow (FCFF)	7.5	9.2	22.3	30.2	34.1	39.9	45.3	48.7	64.7
Cumulative WACC	100%	108%	117%	126%	136%	147%	158%	171%	233%
Present Value of FCFF	7.5	**8.5**	**19.2**	**24.0**	**25.1**	**27.2**	**28.6**	**28.5**	**27.8**
Terminal Value									**1,906**

DCF parameters	
WACC	8.0%
Risk-free rate	3.5%
Equity risk premium	6.0%
Equity beta	0.88
Cost of equity	8.8%
Cost of debt (post-tax)	3.5%
Forecast D/EV	15%

DCF valuation	
Forecast horizon	FY29
Terminal growth rate	5.0%
PV of free cash flows	275.3
PV of terminal value	819.4
Less net debt (cash)	(78.6)
Equity value	898.0
Share count	299.3
Equity value per share	**3.00**

Source: Wilsons' estimates

Valuation approach to product platforms #2 and #3

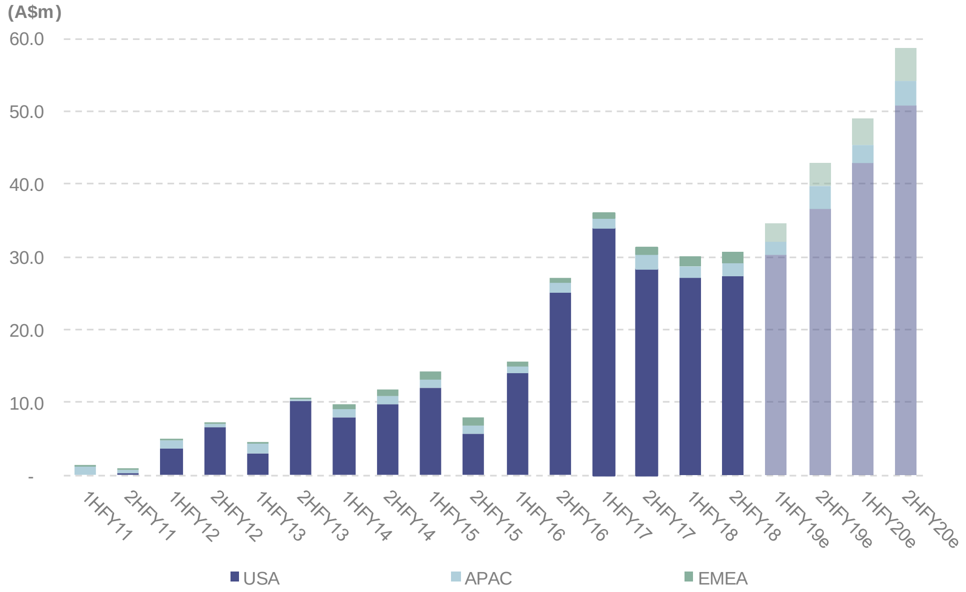
Nanosonics has not disclosed any details about the (at least) two new product platforms it has been developing over the last few years. The only information we do have is qualitative:

- The business cases for each platform are described as being at least as significant as Trophon;
- The products are directed towards the 'infection preventionists' that now make purchasing decisions about Trophon;
- Will feature a capital equipment plus consumables and servicing revenue model; and
- That the company is targeting one or more new infection prevention solutions by the end of FY20, subject to regulatory approvals.

To assess their potential impact on forecasts and valuation we looked back at the historical performance of Trophon and in particular, its rapid introduction to the US market from FY12, partly achieved via a direct US sales force. Our new scenario model layers a similar sales ramp into our forecasts for Product #2 (starting in FY21) and Product #3 (starting in FY22). Other assumptions include:

- Blended specific gross margins of ~70%;
- Incremental SG&A investment of ~15% of net sales; and
- Long-term R&D expense trending towards 8% of net Group sales (inclusive of products #2 and #3).

Figure 2: Historical sales profile for the Trophon EPR by territory with our FY19e and FY20e forecasts



Source: Nanosonics, Wilsons

All else equal the scenario model suggests a group level DCF of $4.85 per share. We have controlled the valuation with a 50% discount factor which seems appropriate given the unknown identity of the products, uncertainty relating to competitive framework, likelihood of regulatory approval and market adoption. New price target is set at $4.00 per share.

Outlook

New product additions lift out year EPS CAGR to 20%. Previously the model exhibited only moderate growth in Trophon as US market 'saturation' was approached (installed base 40,000). Our overall earnings changes (FY19-21) are small – the incremental contribution in FY21 is offset by one-off launch and market development investments. New product launches should bolster EPS growth. Previously our longer term EPS growth outlook was ~12%. New products lift that to ~20%.

Figure 3: Longer term Nanosonics forecasts incorporating new products from FY21

($ in mn)	FY20	1H21	2H21	FY21	1H22	2H22	FY22	FY23	FY24	FY25	FY26	FY27
Trophon												
USA	**93.6**	54.4	58.2	**112.6**	55.0	58.8	**113.8**	**124.9**	**135.0**	**141.5**	**148.3**	**149.9**
APAC	**7.9**	5.2	5.9	**11.1**	6.8	7.7	**14.6**	**18.5**	**23.0**	**27.7**	**35.9**	**45.6**
EMEA	**6.1**	3.1	4.2	**7.3**	3.6	4.8	**8.4**	**9.7**	**11.0**	**12.4**	**14.3**	**16.3**
Products #2 and #3	**-**	0.9	5.1	**6.0**	8.1	9.5	**17.6**	**31.8**	**46.3**	**49.6**	**86.8**	**124.7**
Medical device revenue	**107.6**	63.6	73.4	**137.0**	73.6	80.8	**154.4**	**184.8**	**215.4**	**231.2**	**285.3**	**336.6**
pcp device growth	***39%***	*30%*	*25%*	***27%***	*16%*	*10%*	***13%***	***20%***	***17%***	***7%***	***23%***	***18%***
COGS	**25.6**	12.5	14.2	**26.7**	15.0	15.9	**30.8**	**37.3**	**43.9**	**46.5**	**60.0**	**73.4**
Gross profit	**82.0**	51.1	59.2	**110.3**	58.7	64.9	**123.6**	**147.5**	**171.5**	**184.8**	**225.3**	**263.2**
SG&A	**38.9**	20.4	21.8	**42.2**	26.3	25.9	**52.2**	**54.9**	**61.6**	**67.0**	**77.9**	**89.4**
R&D	**15.0**	7.4	8.5	**15.9**	8.0	8.0	**16.0**	**16.0**	**17.2**	**18.5**	**22.8**	**26.9**
EBITDA	**30.5**	21.6	28.8	**50.4**	25.8	32.6	**58.4**	**80.1**	**96.7**	**104.0**	**130.1**	**153.3**
D&A	**2.1**	1.1	1.2	**2.3**	1.2	1.3	**2.6**	**3.0**	**3.4**	**3.9**	**4.5**	**5.2**
EBIT	**28.5**	20.5	27.7	**48.2**	24.6	31.2	**55.8**	**77.2**	**93.3**	**100.0**	**125.6**	**148.1**
Net interest	**1.7**	1.0	1.2	**2.2**	1.3	1.6	**2.9**	**3.9**	**5.0**	**6.3**	**7.9**	**9.9**
Pre-tax profit	**30.2**	21.5	28.8	**50.3**	25.9	32.8	**58.8**	**81.0**	**98.3**	**106.4**	**133.5**	**158.1**
Tax	**0.0**	6.2	8.6	**14.8**	7.8	9.8	**17.6**	**24.3**	**29.5**	**31.9**	**40.0**	**47.4**
Normalised NPAT	**30.2**	15.3	20.2	**35.5**	18.2	23.0	**41.1**	**56.7**	**68.8**	**74.5**	**93.4**	**110.6**
Normalised EPS	**10.1**	5.1	6.7	**11.8**	6.1	7.7	**13.7**	**18.9**	**22.9**	**24.8**	**31.1**	**36.9**
Diluted shares	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**	**300.0**
Operating cash flow	**25.1**	16.4	19.8	**36.3**	24.7	23.3	**48.0**	**58.4**	**72.1**	**78.2**	**101.1**	**117.7**
Gross margin	76.2%	80.4%	80.6%	80.5%	79.7%	80.4%	80.0%	79.8%	79.6%	79.9%	79.0%	78.2%
SG&A (as % of net sales)	36.1%	32.0%	29.7%	30.8%	35.7%	32.1%	33.8%	29.7%	28.6%	29.0%	27.3%	26.6%
R&D (as % of net sales)	13.9%	11.7%	11.5%	11.6%	10.9%	9.9%	10.4%	8.7%	8.0%	8.0%	8.0%	8.0%
EBITDA margin	28.4%	33.9%	39.3%	36.8%	35.1%	40.3%	37.8%	43.4%	44.9%	45.0%	45.6%	45.6%
NPAT growth				**17.7%**			**15.9%**	**37.9%**	**21.3%**	**8.2%**	**25.5%**	**18.4%**

EPS CAGR ~20%

Source: Wilsons' estimates

Nanosonics (NAN)

Business description

Nanosonics Limited (NAN) develops, manufactures and markets equipment for the high level disinfection of ultrasound probes and other pieces of medical device hardware. Its products are underpinned by a "NanoNebulant" technology – very fine, nebulised droplets of concentrated hydrogen peroxide which kill microorganisms on surfaces. Its lead product, the Trophon EPR, is now available in most major markets for disinfecting obstetrics/gynaecologic probes.

Investment thesis

We upgrade Nanosonics shares to a BUY rating with a 14% lift in price target to $4.00 per share. Our valuation change results from putting more structure and analysis around our approach to new product launches. One or more new infection prevention solutions are planned by the end of FY20. The company's foundation 'Trophon' business (in ultrasound probe disinfection) is in its second product iteration now, providing a stable platform for really explosive multiproduct growth into the mid-FY20s. Nanosonics has pegged its business to the rise and rise of healthcare-related infection control, auditing, traceability and compliance. There is another 'data and technology driven' chapter developing in the background which could assist clinical customers stay in control of infection control, compliance data and facility accreditation. BUY.

Revenue drivers

- Has an non-exclusive distribution arrangement with GEHC for the US and Canadian markets
- Network of third-party device distributors in Europe
- Revenue a function of both device sales (capital equipment) and consumables (cartridges of hydrogen peroxide and other products used with every disinfection cycle)

Balance sheet

- Forecasting net cash $75m as at end-FY19.

Margin drivers

- Gross margins: devices (c.60%); consumables (c.85%)
- Contract pricing may be variable
- Business development expenses expected in both Europe and USA business – building channels, increasing awareness, providing additional customer support

Board

- Mr Maurie Stang (Non-Exec. Chairman)
- Mr Michael Kavanagh (Managing Director)
- Mr Richard England (Non-Exec. Director)
- Dr David Fisher (Non-Exec. Director)
- Ms Marie McDonald (Non-Exec. Director)
- Mr Steven Sargent (Non-Exec. Director)

Key issues/catalysts

- Upside risks:
- Faster-than-expected sales traction in USA and other markets
- Decision to scale-up manufacturing a leading indicator of demand
- New product development opportunities may include high-level disinfection units for transesophageal transducers, endoscopes or other device reprocessing applications

Management

- Mr Michael Kavanagh (CEO)
- Mr McGregor Grant (CFO)
- Dr Steven Farrugia (Senior VP, Design and Development)
- Mr Gerard Putt (COO)

Risk to view

- Downside risks:
- Lower sales growth
- Regulatory and/or clinical practice changes take a long time to change
- All device manufacturers face scale-up, quality control risks.

Contact details

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Website: www.nanosonics.com.au

Disclaimers and disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Disclosures.

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