



# Mach7 Technologies (M7T)

**Speculative BUY**

## Solid FY19 result + new contract wins validate investment thesis

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### Summary (AUD)

Market Capitalisation (\$m)	109.6
Closing Share Price 28-Aug (\$)	0.73
TC Fair Value Estimate (\$)	0.81
52 Week Range (\$)	0.16 - 0.92
Ordinary Shares (m)	150.1
Fully Diluted Ordinary Shares (m)	153.7
Average Daily Vol (3 months)	673,995

### Key Financials (AUD)

(\$ 000)	FY19A	FY20E	FY21E
Revenue	9,347	13,983	18,136
EBITDA (Adj.)	(3,795)	699	4,353
EBIT (Adj.)	(7,502)	(2,813)	761
NPAT (Reported)	(7,059)	(2,002)	788
PE (x)	(14.3)	(56.0)	142.3
EPS (c)	(5.1)	(1.3)	0.5
Net Tangible Assets	(220)	1,218	5,518
Current Ratio (x)	1.1	1.3	1.8
Gross Margin (%)	-15%	24%	39%
EBITDA Margin (%)	-41%	5%	24%
EBIT Margin (%)	-80%	-20%	4%
EV	107,904	106,450	100,638
EV/Sales (x)	12	8	6
EV/EBITDA (Adj.) (x)	(28)	152	23
EV/EBIT (Adj.) (x)	(14)	(38)	132

### M7T v Small Ordinaries (AUD)



### Recommendation & Summary

We maintain a **Speculative BUY** recommendation and increase our fair value estimate to **\$0.81/share (1-Aug: \$0.77)** based on updated cost assumptions. FY19 financials were largely in-line with expectations once adjusted for abnormal items. A higher reported EBITDA loss vs FY18 is offset by \$332k in restructuring costs and a \$772k reduction in share-based payments to employees. Once normalised, EBITDA and EBIT margins have improved 5% and 8% respectively YoY. Our normalised financials and restated FY19 estimates are on page 3 and 4. 3Q FY19's restructure appears more effective than anticipated and should result in a lower cost base going forward (approx. \$11M). However, we also incorporate higher Client Outlook licence fee estimates in our forecasts based on the now disclosed fee for HKHA. We expect the new \$950k contract at St Teresa's in HK will result in a \$80-100k licence fee outflow.

### FY19 Result

**CARR:** \$7.9M (up 42% YoY) and in-line with expectations. New contract wins (\$7.4M TCV) post-June 30 puts current CARR at \$8.8M.

**REVENUE:** Growth of 8% to \$9.3M (FY19e: \$9.8M). TCV of new deals in FY19 was \$21M, of which \$15M is attributable to HKHA. Only \$1.5M in revenue from this deal was recognised in FY19 so we anticipate a larger portion of the remaining \$13.5M (minimum contracted value over 5 years) to be recognised in FY20.

**EBITDA:** The reported EBITDA loss appears higher than expected but is mostly offset by \$332k in restructuring costs and a \$772k reduction in share-based payments. The \$1.6M payment to Client Outlook is a one-off although further licence fees will be payable for future contracts utilising the eUnity viewer.

**FREE CASH FLOW BREAKEVEN:** Our updated forecasts indicate the end of February 2020 target should be comfortably achievable.

### Impact to Valuation

**Our DCF-based fair value estimate increases to \$0.81 and is supplemented by comparable company multiples in appendix 2.**

**CARR:** No change to our market share assumptions. \$7.4M (TCV) in new contracts within the first quarter of FY20 is early validation of our investment thesis: increased credibility will accelerate market share gains.

**REVENUE:** FY20e revenue increases by 3% to \$14M due to timing of HK revenue recognition. FY21+ is unaltered (FY21e \$18.1M, FY22e: \$23.5M)

**EBITDA:** Updates to cost-base assumptions improve forecast EBITDA in FY20e (\$699k vs *standardised* figure from 1 August's forecast of \$99k). For FY21 the net change in standardised EBITDA estimate is approx. 1% but FY22 is 5% downward. Changes are the net effect of cost savings from the restructure and adjusted Client Outlook licence fee cost assumptions.

**FCF:** Information on cost-base and receivables/payables (primarily an influx of cash expected from HKHA) mean FY20 FCF increases from \$216k to \$1.5M and indicates end of February 2020's FCF target can be comfortably achieved.

## M7T - Summary of Forecasts

M7T-AU \$0.73 [AUD]

All figures shown in AUD unless stated otherwise. June year end.

PROFIT & LOSS SUMMARY (\$ 000)					BALANCE SHEET SUMMARY (\$ 000)				
	FY19A	FY20E	FY21E	FY22E		FY19A	FY20E	FY21E	FY22E
<b>Total Revenue</b>	<b>9,347</b>	<b>13,983</b>	<b>18,136</b>	<b>23,476</b>	Cash & Short Term Investments	2,267	3,108	8,920	18,445
COGS	10,710	10,627	11,063	11,738	Receivables & Accrued Revenue	3,492	3,775	3,627	4,226
<b>Gross Profit</b>	<b>(1,363)</b>	<b>3,356</b>	<b>7,073</b>	<b>11,738</b>	Other Current Assets	174	183	192	201
SG&A Expenses	2,432	2,657	2,720	2,817	<b>Total Current Assets</b>	<b>5,933</b>	<b>7,066</b>	<b>12,739</b>	<b>22,872</b>
<b>EBITDA (Adj.)</b>	<b>(3,795)</b>	<b>699</b>	<b>4,353</b>	<b>8,921</b>	Net Property, Plant & Equipmen	187	172	177	175
Depreciation and Amortisation	3,707	3,512	3,591	2,742	Investments & Contract Depositi	1,066	1,066	1,066	1,066
<b>EBIT (Adj.)</b>	<b>(7,502)</b>	<b>(2,813)</b>	<b>761</b>	<b>6,179</b>	Intangible Assets	10,585	7,146	3,633	971
Net Interest	(18)	6	47	134	<b>Total Non-Current Assets</b>	<b>11,839</b>	<b>8,384</b>	<b>4,876</b>	<b>2,213</b>
Net Other Income	30	45	58	75	<b>TOTAL ASSETS</b>	<b>17,772</b>	<b>15,450</b>	<b>17,615</b>	<b>25,084</b>
Impairments	—	—	—	—	ST Debt & Curr. Portion LT Debt	613	—	—	—
Restructuring Expenses	333	—	—	—	Trade & Other Payables	1,113	1,169	1,217	1,291
<b>Profit Before Tax (Reported)</b>	<b>(7,823)</b>	<b>(2,761)</b>	<b>866</b>	<b>6,389</b>	Deferred Revenue	3,478	4,475	5,803	7,512
Income Tax Expense (Benefit)	(764)	(759)	78	703	<b>Total Current Liabilities</b>	<b>5,204</b>	<b>5,644</b>	<b>7,020</b>	<b>8,804</b>
<b>NPAT (Reported)</b>	<b>(7,059)</b>	<b>(2,002)</b>	<b>788</b>	<b>5,686</b>	Long Term Debt	—	—	—	—
<b>Margins</b>					Deferred Tax Liability	2,203	1,443	1,443	1,443
Gross	-15%	24%	39%	50%	<b>Total Non-Current Liabilities</b>	<b>2,203</b>	<b>1,443</b>	<b>1,443</b>	<b>1,443</b>
EBITDA (Adj.)	-41%	5%	24%	38%	<b>TOTAL LIABILITIES</b>	<b>7,407</b>	<b>7,087</b>	<b>8,464</b>	<b>10,247</b>
EBIT (Adj.)	-80%	-20%	4%	26%	Common Equity	58,845	58,845	58,845	58,845
NPAT	-76%	-14%	4%	24%	Retained Earnings	(51,824)	(53,826)	(53,038)	(47,352)
<b>Change on pcpr</b>					Reserves	3,344	3,344	3,344	3,344
Revenue	8%	50%	30%	29%	<b>TOTAL EQUITY</b>	<b>10,365</b>	<b>8,363</b>	<b>9,152</b>	<b>14,838</b>
EBITDA (Adj.)	4%	118%	523%	105%					
EBIT (Adj.)	2%	63%	127%	712%					
NPAT	-43%	72%	139%	621%					

PER SHARE DATA (DILUTED)				
	FY19A	FY20E	FY21E	FY22E
EPS (c)	(5.1)	(1.3)	0.51	3.7
<i>Growth (pcpr)</i>	-31%	74%	139%	621%
Revenue per Share (c)	6.7	9.1	11.8	15.3
EBIT per Share (c)	(5.4)	(1.8)	0.5	4.0
FCFE per Share (c)	(1.7)	0.5	3.8	6.1
NTA per share (c)	(0.2)	0.8	3.6	9.0

KEY RATIOS				
	FY19A	FY20E	FY21E	FY22E
Debt : Equity (%)	5.9%	0.0%	0.0%	0.0%
EBIT Interest cover (x)	-166	-102	n/a	n/a
Current ratio (x)	1.1	1.3	1.8	2.6
ROE (%)	-68%	-24%	9%	38%
ROA (%)	-40%	-13%	4%	23%

REVENUE BREAKDOWN (\$ 000)				
	FY19A	FY20E	FY21E	FY22E
ARR	4.3	6.7	9.4	13.0
Upfront/License Revenue	5.0	7.3	8.7	10.4
Total Group Revenue	9.3	14.0	18.1	23.5

CASH FLOW SUMMARY (\$ 000)				
	FY19A	FY20E	FY21E	FY22E
Net Cash From Operations	(2,912)	1,511	5,895	9,603
Net Cash From Investing	(820)	(57)	(84)	(78)
Net Cash From Financing	3,481	(613)	—	—
<b>Net Change in Cash</b>	<b>(245)</b>	<b>841</b>	<b>5,812</b>	<b>9,525</b>
Net Operating Cash Flow	(2,912)	1,511	5,895	9,603
Less: Capex	(94)	(57)	(84)	(78)
<b>Free Cash Flow</b>	<b>(3,005)</b>	<b>1,454</b>	<b>5,812</b>	<b>9,525</b>
Less: Net Interest Income	(18)	6	47	134
<b>Unlevered Free Cash Flow</b>	<b>(2,988)</b>	<b>1,448</b>	<b>5,765</b>	<b>9,391</b>

VALUATION MULTIPLES				
	FY19A	FY20E	FY21E	FY22E
P/E (x)	(14.3)	(56.0)	142.3	19.7
P/Sales (x)	11.7	7.8	6.0	4.7
P/FCF (x)	(36.5)	75.3	18.9	11.5
EV (\$ 000)	107,904	106,450	100,638	91,113
EV/Revenue (x)	11.5	7.6	5.5	3.9
EV/EBITDA (x)	(28.4)	152.3	23.1	10.2
EV/EBIT (x)	(14.4)	(37.8)	132.2	14.7

## Restated Financials & Forecasts

We restate historical and forecast figures due to FY19's material share-based payments change and one-off restructuring expenses:

- Share-based payments move to cost of sales and are modelled as cash-based payments in forecast periods.
- Restructuring expenses are listed below the EBIT line as a non-recurring expense.
- Net interest income and net non-operating income also move below EBIT.
- Cost of sales is comprised of distributor and licence fees + employee benefits and staff related expenses.
- SG&A expenses incorporate general administration, marketing, professional and corporate fees, travel, provisions for doubtful debts and doubtful debt recoveries.

### Income Statement (AUD \$ 000)

AUD \$ 000	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales</b>	<b>1,859</b>	<b>10,269</b>	<b>8,644</b>	<b>9,347</b>	<b>13,983</b>	<b>18,136</b>	<b>23,476</b>
Cost of Sales	3,365	10,926	10,389	10,710	10,627	11,063	11,738
<b>Gross Income</b>	<b>(1,506)</b>	<b>(657)</b>	<b>(1,745)</b>	<b>(1,363)</b>	<b>3,356</b>	<b>7,073</b>	<b>11,738</b>
SG&A Expenses	3,030	4,021	2,196	2,432	2,657	2,720	2,817
<b>EBITDA (Adj.)</b>	<b>(4,536)</b>	<b>(4,679)</b>	<b>(3,941)</b>	<b>(3,795)</b>	<b>699</b>	<b>4,353</b>	<b>8,921</b>
Depreciation	152	196	59	67	60	68	70
Amortisation	1,664	6,066	3,642	3,640	3,452	3,523	2,672
<b>EBIT (Adj.)</b>	<b>(6,351)</b>	<b>(10,942)</b>	<b>(7,641)</b>	<b>(7,502)</b>	<b>(2,813)</b>	<b>761</b>	<b>6,179</b>
Interest Income	22	42	37	28	34	47	134
Interest Expense	165	240	11	45	28	—	—
Net Non-Operating Income	(129)	(137)	299	30	45	58	75
Impairments	6,505	11,675	—	—	—	—	—
Restructuring Expenses	—	—	—	333	—	—	—
<b>Profit Before Tax (Reported)</b>	<b>(13,128)</b>	<b>(22,951)</b>	<b>(7,316)</b>	<b>(7,823)</b>	<b>(2,761)</b>	<b>866</b>	<b>6,389</b>
Income Tax Expense (Benefit)	(499)	(5,195)	(2,363)	(764)	(759)	78	703
Tax Credit	—	97	—	—	—	—	—
<b>NPAT (Reported)</b>	<b>(12,629)</b>	<b>(17,659)</b>	<b>(4,953)</b>	<b>(7,059)</b>	<b>(2,002)</b>	<b>788</b>	<b>5,686</b>

### Variance of Restated 1 August Estimates

FY19-FY22 estimates from our August 1 forecast are restated according to the methodology from page 3.

AUD \$ 000	FY19A	FY19E	Variance	FY20E	FY20E	Variance	FY21E	FY21E	Variance	FY22E	FY22E	Variance
		1-Aug	%	Current	1-Aug	%	Current	1-Aug	%	Current	1-Aug	%
<b>Sales</b>	<b>9,347</b>	<b>9,805</b>	-5%	<b>13,983</b>	<b>13,515</b>	3%	<b>18,136</b>	<b>18,136</b>	0%	<b>23,476</b>	<b>23,476</b>	0%
Operating Expenses	(13,142)	(13,396)		(13,284)	(13,416)		(13,783)	(13,830)		(14,555)	(14,105)	
<b>EBITDA (Adj.)</b>	<b>(3,795)</b>	<b>(3,591)</b>	-5%	<b>699</b>	<b>99</b>	86%	<b>4,353</b>	<b>4,305</b>	1%	<b>8,921</b>	<b>9,371</b>	-5%
Depreciation	67	46		60	60		68	68		70	70	
Amortisation	3,640	3,412		3,452	3,452		3,523	3,523		2,672	2,672	
<b>EBIT (Adj.)</b>	<b>(7,502)</b>	<b>(7,050)</b>	-6%	<b>(2,813)</b>	<b>(3,413)</b>	21%	<b>761</b>	<b>714</b>	6%	<b>6,179</b>	<b>6,629</b>	-7%
Interest Income	28	34		34	30		47	59		134	160	
Interest Expense	45	30		28	31		—	1		—	1	
Net Non-Operating Inc	30	111		45	135		58	181		75	245	
Impairments	—	—		—	—		—	—		—	—	
Restructuring	333	1		—	2		—	3		—	4	
<b>Profit Before Tax</b>	<b>(7,823)</b>	<b>(6,935)</b>	-11%	<b>(2,761)</b>	<b>(3,279)</b>	19%	<b>866</b>	<b>953</b>	-10%	<b>6,389</b>	<b>7,033</b>	-10%
Income Tax	(764)	(1,066)		(759)	(593)		78	(380)		703	(261)	
Tax Credit	—	—		—	—		—	—		—	—	
<b>NPAT (Reported)</b>	<b>(7,059)</b>	<b>(5,869)</b>	-17%	<b>(2,002)</b>	<b>(2,685)</b>	34%	<b>788</b>	<b>1,333</b>	-69%	<b>5,686</b>	<b>7,294</b>	-28%

## Balance Sheet (AUD \$ 000)

AUD \$ 000	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Assets</b>							
Cash & Short Term Investments	1,930	2,784	2,505	2,267	3,108	8,920	18,445
Receivables & Accrued Revenue	2,067	4,884	3,794	3,492	3,775	3,627	4,226
Other Current Assets	436	229	198	174	183	192	201
<b>Total Current Assets</b>	<b>4,433</b>	<b>7,896</b>	<b>6,496</b>	<b>5,933</b>	<b>7,066</b>	<b>12,739</b>	<b>22,872</b>
Net Property, Plant & Equipment	800	185	174	187	172	177	175
Investments & Contract Deposits	—	—	318	1,066	1,066	1,066	1,066
Intangible Assets	35,569	17,843	14,218	10,585	7,146	3,633	971
<b>Total Non-Current Assets</b>	<b>36,368</b>	<b>18,028</b>	<b>14,710</b>	<b>11,839</b>	<b>8,384</b>	<b>4,876</b>	<b>2,213</b>
<b>Total Assets</b>	<b>40,801</b>	<b>25,925</b>	<b>21,206</b>	<b>17,772</b>	<b>15,450</b>	<b>17,615</b>	<b>25,084</b>
<b>Liabilities</b>							
ST Debt & Curr. Portion LT Debt	2,993	32	14	613	—	—	—
Trade & Other Payables	1,231	1,755	1,263	1,113	1,169	1,217	1,291
Deferred Revenue	2,368	2,855	2,716	3,478	4,475	5,803	7,512
<b>Total Current Liabilities</b>	<b>6,592</b>	<b>4,643</b>	<b>3,992</b>	<b>5,204</b>	<b>5,644</b>	<b>7,020</b>	<b>8,804</b>
Long Term Debt	223	13	—	—	—	—	—
Deferred Tax Liability	10,525	5,329	2,967	2,203	1,443	1,443	1,443
<b>Total Non-Current Liabilities</b>	<b>10,748</b>	<b>5,342</b>	<b>2,967</b>	<b>2,203</b>	<b>1,443</b>	<b>1,443</b>	<b>1,443</b>
<b>Total Liabilities</b>	<b>17,339</b>	<b>9,986</b>	<b>6,959</b>	<b>7,407</b>	<b>7,087</b>	<b>8,464</b>	<b>10,247</b>
Common Equity	43,856	53,091	55,557	58,845	58,845	58,845	58,845
Retained Earnings	(22,153)	(39,812)	(44,765)	(51,824)	(53,826)	(53,038)	(47,352)
Reserves	1,758	2,660	3,455	3,344	3,344	3,344	3,344
<b>Total Equity</b>	<b>23,462</b>	<b>15,939</b>	<b>14,247</b>	<b>10,365</b>	<b>8,363</b>	<b>9,152</b>	<b>14,838</b>
<b>Net Assets</b>	<b>23,462</b>	<b>15,939</b>	<b>14,247</b>	<b>10,365</b>	<b>8,363</b>	<b>9,152</b>	<b>14,838</b>

## Cash Flow Statement (AUD \$ 000)

AUD \$ 000	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Net Income	(12,629.5)	(17,659.1)	(4,953.4)	(7,058.7)	(2,001.9)	788.3	5,686.0
Depreciation & Amortisation	1,815.9	6,262.7	3,700.5	3,707.2	3,511.8	3,591.2	2,741.6
Other Funds	6,737.3	7,813.1	(1,422.0)	(497.3)	(759.3)	—	—
<b>Funds from Operations</b>	<b>(4,076.3)</b>	<b>(3,583.3)</b>	<b>(2,674.9)</b>	<b>(3,848.8)</b>	<b>750.5</b>	<b>4,379.5</b>	<b>8,427.5</b>
Change in Net Working Capital	707.7	(1,330.2)	488.9	937.3	760.5	1,515.9	1,175.2
<b>Net Cash From Operations</b>	<b>(3,368.5)</b>	<b>(4,913.5)</b>	<b>(2,186.0)</b>	<b>(2,911.5)</b>	<b>1,511.0</b>	<b>5,895.4</b>	<b>9,602.7</b>
CAPEX	(568.0)	(52.0)	(100.0)	(93.8)	(56.8)	(83.5)	(78.1)
Net Assets From Acquisitions	(986.4)	—	—	—	—	—	—
Sale of Fixed Assets & Businesses	621.6	168.6	1.0	—	—	—	—
Purchase/Sale of Investments	(3,422.1)	109.8	80.7	(726.2)	—	—	—
<b>Net Cash From Investing</b>	<b>(4,354.9)</b>	<b>226.4</b>	<b>(18.3)</b>	<b>(820.0)</b>	<b>(56.8)</b>	<b>(83.5)</b>	<b>(78.1)</b>
Change in Capital Stock	6,748.7	6,849.5	2,039.0	2,907.8	—	—	—
Net Borrowing	—	(855.9)	(12.9)	573.0	(613.5)	—	—
<b>Net Cash from Financing</b>	<b>6,748.7</b>	<b>5,993.6</b>	<b>2,026.1</b>	<b>3,480.8</b>	<b>(613.5)</b>	<b>—</b>	<b>—</b>
Exchange Rate Effects	(58.2)	(93.5)	(1.5)	6.1	—	—	—
Miscellaneous Funds	—	—	(0.0)	—	—	—	—
<b>Net Change in Cash Balance</b>	<b>(1,032.9)</b>	<b>1,213.0</b>	<b>(179.6)</b>	<b>(244.6)</b>	<b>840.7</b>	<b>5,811.8</b>	<b>9,524.6</b>

## New Contract Wins

### St Teresa's (Hong Kong) – 21 August

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- Total contract revenue of AUD \$950k over 5 years. Anticipated “go-live” is November 2019.
- St Teresa's is a 1000-bed private hospital and one of two operated by Sisters of St. Paul de Chartres (the Catholic Church). St Paul's Hospital (400 beds) is the other hospital operated by Sisters of St Paul. Precious Blood Hospital (176 beds) is also affiliated with the Catholic Church (via Caritas). See appendix 1 for all HK private hospitals.
- First deal with a private hospital in Hong Kong following on from the contract win with HK Hospital Authority (public health provider) in October 2018.
- Our assumption is that St Teresa's were participants in the Hospital Authority's testing of M7T's software in Hong Kong last year due to the seemingly accelerated tender process (6-8 months). Other private hospital operators may have also taken part in this testing.
- M7T will provide a PACS replacement utilising: Enterprise Imaging Platform, Universal Worklist, QC Workflow and Migration Engine.
- Licence fee payable to Client Outlook for the eUnity viewer is a small (but undisclosed) portion of the TCV. We expect this fee to be in the region of \$80 - \$100k.

### 3 x New Contracts (United States) – 13 August

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Combined TCV of AUD \$500k. Timeframe is not disclosed although 5 years is the norm.

#### Colorado Imaging Associates (CIA)

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- CIA are a radiology services company based in Golden, Colorado with 37 radiologists.
- Provide teleradiology services to hospitals and healthcare networks across Colorado and Wyoming.
- Teleradiology (i.e. outsourcing of radiology services for specialty reads, volume management or urgent requests after-hours or on public holidays) is another driver for M7T's software solutions.
- M7T's Management Studio will provide CIA with the capability to automate the routing of images to their reading groups across the state of Colorado.

#### UW Medicine (UWM)

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- UWM are a health system based in Seattle, Washington with 300 clinics across 44 zip codes and operate 4 hospitals in Washington State with a combined bed count of 1,585.
- After recently acquiring an M7T customer, UWM have purchased a broader licence to begin expanding M7T's software in their greater health system.
- We expect the TCV of this contract will increase substantially as UWM rollout the software to additional sites in their network.

#### Sentara Halifax Regional Hospital

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- Sentara Healthcare are a network provider of health services operating 12 hospitals.
- M7T customer since 2014.
- Sentara acquired Halifax Regional Hospital (204 beds) and are migrating imaging studies from Halifax's disparate PACS systems to their Mach7 VNA.
- Sentara will conduct the migration using M7T's migration engine and software.
- Customers are billed based on volume of studies – M&A by existing customers results in expansion of existing contract value.

## Appendix 1

### Potential US Hospital Market

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#### Why only Hospitals?

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Other than hospitals, out-patient diagnostic imaging centres comprise the only other market for enterprise imaging software. It is our view that this market presents little opportunity for Mach7 at this point in time.

As of 2015, there were 6,598 outpatient diagnostic imaging centres in the United States. The market is highly fragmented<sup>1</sup>.

The out-patient imaging industry is struggling in the US due to rising competition from hospital-operated outpatient centres. Standalone out-patient clinics and smaller clinical networks lack the scale needed to justify investment in enterprise imaging software and are generally consolidated by hospital operators rather than other imaging centres<sup>2</sup>. Hospital networks see more value in out-patient clinics as they are able to extract greater synergies in cost reduction and cross-sell opportunities. These synergies are achieved (in part) by leveraging software and hardware for VNAs, teleradiology and enterprise imaging.

#### Methodology

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The Center for Medicare and Medicaid Services publicly lists all parameters collected during mandatory quarterly reporting of Medicare/Medicaid registered healthcare providers in the United States.

We filtered the June 2019 Provider of Services (POS) data (148,023 providers) to return only hospitals (12,620) which meet the following criteria:

- Active, state-approved providers not under investigation (7,098)
- Not a "Skeleton Provider" - i.e. a full set of data is reported (6,316)
- Hospital facility type of Short-Term or Long-Term or Children's (3,799) – eliminates non-medical religious providers, critical access centres etc
- Have diagnostic radiology facilities provided by staff, under arrangement or under arrangement by staff (3,744)
- Have diagnostic radiology facilities provided only by staff or by staff AND under arrangement (3,380)
- Have more than 400 beds (575). The average bed count per hospital in this sample is: 643

As contracts generally run for 5 years, an average of 1 in 5 hospitals are likely to have *potential* to switch providers in any 12-month period. Therefore, we evenly select 20% of the applicable hospital population. This gives a roughly estimated market of 114 US hospitals with staff-provided radiology services at the end of a contract with an existing imaging IT provider in any 12-month period.

#### Potential US hospital pipeline estimate

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The adoption rate of enterprise imaging solutions in the US is currently around 30% according to data from Signify Research but is predicted to rise to 50% by 2022. Using the current adoption rate of 30%, a rough estimate of large US hospitals *potentially* able to contract with Mach7 in any one-year period is 34. We assume a tender win-rate of around 30%, however, due to the time and cost of negotiating the tender process, M7T does not submit a tender for every available opportunity. Only opportunities management believes are reasonably likely to result in a contract win are pursued. Assuming 15 opportunities are pursued each year, a crude estimate of expected future contracts at large US hospitals is 4.

349 out of the 575 hospitals (61%) in our sample were part of a network or had multiple sites. Therefore, a contract win with one hospital will more likely than not involve software implementations at other sites concurrently or in a later period.

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<sup>1</sup> <https://www.radiologybusiness.com/topics/care-delivery/consolidation-and-change-current-state-outpatient-imaging>

<sup>2</sup> <https://www.ncbi.nlm.nih.gov/pubmed/26141227>

## Potential Hong Kong Private Hospital Market

Name	Beds	Operator
Canossa Hospital	174	Canossian Daughters of Charity
Evangel Hospital	60	Evangelical Church
Gleneagles Hospital	500	Parkway Pantai/NWS Holdings/Uni of HK
HK Adventist Hospital	152	Seventh-day Adventist Church
HK Baptist Hospital	860	Baptist Church
HK Sanitorium & Hospital	400	Li Ka Shing Faculty of Medicine, University of Hong Kong and School of Nursing, Open University of Hong Kong
Matilda International Hospital	102	Endowment fund of Granville Sharp
Precious Blood Hospital	176	Caritas (Catholic Church)
HK Adventist Hospital - Tsuen Wan	470	Seventh-day Adventist Church
Union Hospital	410	Union
People's Liberation Army Barracks Hospital	unknown	Chinese Military
CUHK (UNDER CONSTRUCTION)	500	The Chinese University of Hong Kong

## Potential Middle Eastern Market

M7T has an existing contract with the Hamad Medical Corporation (Qatar) which runs a network of six hospitals. This network manages 90% of Qatar's medical imaging volumes.

Similar national networks exist in other Middle Eastern countries and the existing network implantation in Qatar plus the rollout in Hong Kong may result in further deals with the remaining Arab states in the Persian Gulf.

## Appendix 2

### Comparable Company Multiples

Company	Ticker	Weight	Region	Price AU \$	Mkt Cap		EV/Sales			EV/EBITDA			P/E			FY0-FY2 CAGR			FY0 Multiple vs CAGR		
					AUD mil.	% chg (YoY)	FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2	Sales	EBITDA	EPS	Sales	EBITDA	EPS
Mach7 Technologies	M7T-AU		AU	0.73	110	268%															
<b>Global Imaging IT Competitors</b>																					
FUJIFILM Holdings	4901-JP		JP	63.1	32,480	10%	1x	1x	1x	6x	5x	5x	16x	12x	11x	8%	13%	21%	12x	50x	75x
Konica Minolta	4902-JP		JP	10.4	5,231	-23%	1x	1x	1x	7x	5x	5x	10x	10x	8x	9%	15%	9%	8x	46x	109x
Koninklijke Philips	PHIA-NL		NL	69.2	62,666	7%	2x	2x	2x	15x	13x	12x	38x	23x	19x	8%	12%	39%	31x	120x	96x
McKesson	MCK-US		US	204.9	37,878	7%	0x	0x	0x	9x	8x	8x	865x	10x	9x	8%	7%	886%	2x	133x	98x
NTT DATA	9613-JP		JP	19.3	27,030	11%	1x	1x	1x	9x	8x	7x	23x	20x	18x	10%	12%	15%	12x	73x	153x
Sectra	SECT.B-SE		SE	57.4	2,052	42%	10x	9x	9x	57x	42x	38x	73x	68x	60x	8%	23%	10%	121x	250x	731x
Siemens Healthineers	SHL-DE		DE	58.7	58,725	-6%	3x	3x	3x	16x	13x	12x	30x	22x	20x	8%	14%	23%	38x	116x	131x
<b>Median</b>					<b>32,480</b>	<b>7%</b>	<b>1x</b>	<b>1x</b>	<b>1x</b>	<b>9x</b>	<b>8x</b>	<b>8x</b>	<b>30x</b>	<b>20x</b>	<b>18x</b>	<b>8%</b>	<b>13%</b>	<b>21%</b>	<b>12x</b>	<b>116x</b>	<b>109x</b>
<b>Average</b>		<b>5%</b>			<b>32,294</b>	<b>7%</b>	<b>3x</b>	<b>2x</b>	<b>2x</b>	<b>17x</b>	<b>14x</b>	<b>12x</b>	<b>151x</b>	<b>23x</b>	<b>21x</b>	<b>8%</b>	<b>14%</b>	<b>143%</b>	<b>32x</b>	<b>112x</b>	<b>199x</b>
<i>Min</i>					2,052	-23%	0x	0x	0x	6x	5x	5x	10x	10x	8x	8%	7%	9%	2x	46x	75x
<i>Max</i>					62,666	42%	10x	9x	9x	57x	42x	38x	865x	68x	60x	10%	23%	886%	121x	250x	731x
<b>Australian Medical Imaging IT</b>																					
ImExHS	IME-AU	50%	AUS	0.04	40	72%	4x														
Pro Medicus	PME-AU	30%	AUS	36.3	3,757	261%	77x	63x	52x	122x	94x	73x	198x	151x	113x	21%	29%	32%	358x	420x	614x
Volpara Health	VHT-AU	15%	AUS	1.5	326	115%	53x	14x	9x							141%	-30%	-37%	37x		
<b>Median</b>					<b>326</b>	<b>115%</b>	<b>53x</b>	<b>39x</b>	<b>31x</b>	<b>122x</b>	<b>94x</b>	<b>73x</b>	<b>198x</b>	<b>151x</b>	<b>113x</b>	<b>81%</b>	<b>0%</b>	<b>-2%</b>	<b>197x</b>	<b>420x</b>	<b>614x</b>
<b>Average</b>					<b>1,374</b>	<b>149%</b>	<b>45x</b>	<b>39x</b>	<b>31x</b>	<b>122x</b>	<b>94x</b>	<b>73x</b>	<b>198x</b>	<b>151x</b>	<b>113x</b>	<b>81%</b>	<b>0%</b>	<b>-2%</b>	<b>197x</b>	<b>420x</b>	<b>614x</b>
<b>Weighted Average Peer Multiple</b>					<b>2,811</b>	<b>132%</b>	<b>33x</b>	<b>21x</b>	<b>17x</b>	<b>37x</b>	<b>29x</b>	<b>23x</b>	<b>67x</b>	<b>47x</b>	<b>35x</b>	<b>28%</b>	<b>5%</b>	<b>11%</b>	<b>114x</b>	<b>132x</b>	<b>194x</b>



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