



# Nanosonics (NAN)

## Momentum Continues to Build in Europe

### BUY

Risk: High

#### Key Information

Price (\$ps)	1.11
Target Price (\$ps)	1.20
Market Cap (\$M)	291
GICS Sector	Healthcare Eq & Services
52 week Hi-Lo (\$ps)	1.20 - 0.74
Daily Vol (M, mth avg)	0.3
Weight of S&P 200 Index (%)	0.00
Cash (\$m)	\$24M
Debt (\$m)	\$0M
Gearing (ND/ND+E) (%)	Net Cash
Forecast Total Return (%)	8.6%

#### Investment Fundamentals

Jun-30	FY13	FY14	FY15F	FY16F
Sales (\$m)	16.4	24.9	32.0	39.4
EBITDA (\$m)	-5.4	-1.8	-1.2	1.2
Margin (%)	-0.4	-0.1	0.0	0.0
NPAT (\$m)	-5.8	-2.6	-1.5	1.1
EPS (cps)	-2.5	-1.0	-0.6	0.4
EPS Growth (%)		-59.7%	-40.7%	nm
DPS (cps)	0.0	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%

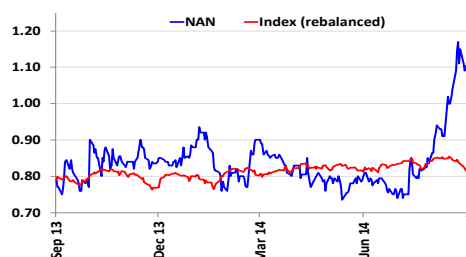
Source: Shaw Stockbroking

#### Ratio Analysis

Jun-30	FY13	FY14	FY15F	FY16F
PE (x)	-45.0	-111.6	-188.1	271.1
PE Rel (x)	-3.7	-9.3	-15.7	22.6
Yield	0.0%	0.0%	0.0%	0.0%
ROE	-24.2%	-12.4%	-7.9%	5.5%
P/BV (x)	11.9x	14.2x	15.4x	14.6x

PE Rel is compared to the Market (Industrials + Resources)

#### NAN vs S&P/ASX Market Index



Performance	1 Mth	3 Mth	12 Mth
Absolute (NAN)	27.7%	38.1%	39.9%
Rel to Market	31.0%	37.7%	36.6%

#### Company Activities

NAN is a medical device company focusing on research, development and commercialisation of novel disinfection portfolio and sterilisation products utilising NAN's proprietary technology platform.

#### Major Shareholders

Shareholding	
Allan Gray	11.8%
National Nominees	11.2%
Stang, Maurie	10.8%
Stang, Bernard	10.5%
Aust Executor Trustees SA Ltd	6.2%
Kritzler, Steven	5.2%

#### Directors and Management

Richard F England  
Maurie Stang  
David Fisher  
Dr Ronald Weinberger  
Michael Kavanagh

### Event

A new European study has shown trophon® EPR high level disinfection for ultrasound probes to be significantly more effective than manual wipe disinfection.

### Key points

When compared directly to trophon® EPR's automated process, the manual method, standard in most European countries, demonstrated a threefold higher risk of cross contamination, which means increased risk of infection for patients. The study also highlighted the increased cross contamination risk when ultrasound probe handles are not disinfected with 83% of probe handles showing signs of contamination. Disinfection using trophon® EPR's automated process effectively disinfected the handle as well as the body of the probe.

The study, which was carried out by the University Hospital Münster in Germany, was presented at the World Congress of the International Society of Ultrasound in Gynecology and Obstetrics (ISUOG) in Barcelona this week.

### Shaw's View

**Momentum in favour of using trophon® EPR continues to build.** Over FY14 we saw both trials and regulatory guidelines supporting or in favour of improved high level disinfection for ultrasound probes continue to strengthen in NAN's favour. Clinical studies and regulatory guidelines not only continue to raise awareness about the advantages of trophon® EPR over traditional disinfection techniques, but are quickly pushing the trophon® EPR toward being the accepted standard of care across the globe.

**Momentum with distributors also continues to build** – In the US, trophon® EPR is now present in 40 out of 50 top US hospitals and across 1,606 sites (up from 1,400 in April). The US strength combined with distributors now in place in Europe have set up NAN to capture a large part of the \$3bn+ global ultrasound disinfection market.

### Recommendation

BUY. NAN is fast moving away from being a speculative medical device company towards being a steady state industrial company with multiple clients and revenue streams. We expect cash flow break-even periods to become more common in the near term and management quality to become increasingly evident to outside observers as momentum continues, which will make NAN increasingly attractive to institutional investors. We expect its share price will trade up towards our DCF based 12 month TP of \$1.20.



## Financial Summary

<b>Consolidated P&amp;L (A\$m)</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>	<b>Key Financials</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>
<b>Operating revenues</b>	<b>12.3</b>	<b>14.9</b>	<b>21.5</b>	<b>32.0</b>	<b>39.4</b>	Diluted average shares	234.7	234.7	263.1	263.1	264.2
Non operating revenues	0.2	1.5	3.4	0.0	0.0	Reported EPS	-2.0	-2.4	-1.0	-0.6	0.4
<b>Total revenues</b>	<b>12.5</b>	<b>16.4</b>	<b>24.9</b>	<b>32.0</b>	<b>39.4</b>	Reported EPS (diluted)	-2.0	-2.4	-1.0	-0.6	0.4
<b>Total operating expenses</b>	<b>17.4</b>	<b>21.8</b>	<b>26.7</b>	<b>33.2</b>	<b>38.2</b>	<b>Cash EPS (diluted)</b>	-2.0	-2.5	-1.0	-0.6	0.4
<b>EBITDA</b>	<b>-5.0</b>	<b>-5.4</b>	<b>-1.8</b>	<b>-1.2</b>	<b>1.2</b>	EPS growth	-60%	23%	-60%	-41%	-169%
Depreciation of assets	-0.9	-1.0	-1.0	-0.6	-0.4	<b>PER (x)</b>	<b>-55.4x</b>	<b>-45.0x</b>	<b>-111.6x</b>	<b>-188.1x</b>	<b>271.1x</b>
Amortisation goodwill	0.0	0.0	0.0	0.0	0.0	DPS (cps)	0.0	0.0	0.0	0.0	0.0
Amortisation other	0.0	0.0	0.0	0.0	0.0	Payout ratio (%)	0%	0%	0%	0%	0%
<b>EBIT</b>	<b>-5.9</b>	<b>-6.4</b>	<b>-2.8</b>	<b>-1.9</b>	<b>0.8</b>	<b>Dividend yield (net)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Interest charges	0.0	-0.5	-0.6	-0.6	-0.6	Franking	100%	100%	100%	100%	100%
Interest received	0.6	1.2	0.7	0.7	0.7	<b>Dividend yield (gross)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Share of net profits of asso	0.0	0.0	0.0	0.0	0.0	<b>Key Operational Financials</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>
<b>Profit before tax</b>	<b>-5.3</b>	<b>-5.7</b>	<b>-2.6</b>	<b>-1.7</b>	<b>0.9</b>	EBITDA margin (%)	-40.5%	-36.0%	-8.6%	-3.8%	3.0%
Tax	0.6	0.0	0.0	0.1	0.2	EBIT margin (%)	-47.9%	-43.0%	-13.1%	-5.8%	2.0%
OEI	0.0	0.0	0.0	0.0	0.0	NPAT margin (%)	-38.0%	-38.7%	-12.1%	-4.8%	2.7%
<b>Normalised NPAT</b>	<b>-4.7</b>	<b>-5.8</b>	<b>-2.6</b>	<b>-1.5</b>	<b>1.1</b>	Tax rate (%)	11.9%	-0.6%	1.2%	8.6%	-17.8%
Significant items (after tax)	0.0	0.0	0.0	0.0	0.0	EBITDA growth (%)	-58.4%	7.7%	-65.6%	-33.2%	-197.2%
<b>Reported NPAT</b>	<b>-4.7</b>	<b>-5.7</b>	<b>-2.6</b>	<b>-1.5</b>	<b>1.1</b>	EBIT growth (%)	-54.6%	8.7%	-56.0%	-33.9%	-142.4%
<b>Cash NPAT</b>	<b>-4.7</b>	<b>-5.7</b>	<b>-2.6</b>	<b>-1.5</b>	<b>1.1</b>	NPAT growth (%)	-58.3%	22.5%	-55.2%	-39.8%	-169.7%
<b>Cashflows (A\$m)</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>	<b>Cash Flow Ratios</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>
Operating cashflows	-5.0	-4.5	-2.6	-1.6	1.2	FCF (OC - CAPEX)	-6	-6	-3	-2	1
Investing cashflows	-0.8	-1.4	-0.5	0.0	0.0	FCF (growth pcp %)		-0.1%	-47.6%	-48.4%	-174.3%
Financing cashflows	22.8	0.5	0.3	0.0	0.0	Total CAPEX spend	-1	-1	0	0	0
Net increase in cash	17.0	-5.3	-2.7	-1.6	1.2	Net borrowings	0	0	0	0	0
Cash at end of the year	29.3	24.1	21.2	19.6	20.8						
	-	-	-	-	-						
<b>Balance Sheet (A\$m)</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>	<b>Balance Sheet Ratios</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>
Cash	29.3	24.1	21.2	19.6	20.8	Period end shares	260.4	261.2	263.1	264.2	264.2
Receivables	3.0	4.2	5.7	6.9	7.8	NAV per share	0.1	0.1	0.1	0.1	0.1
Inventories	2.4	2.9	4.2	4.2	4.2	ROE (%)	-23%	-24%	-12%	-8%	6%
Plant & equipment	1.5	1.8	1.8	1.1	0.7	P / NAV (P/BV)	9.9x	11.9x	14.2x	15.4x	14.6x
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	NTA per share	0.1	0.1	0.1	0.1	0.1
Intangibles	0.1	0.0	0.0	0.0	0.0	ROTE (%)	-23%	-24%	-12%	-8%	6%
Other assets	0.4	0.6	0.6	0.6	0.6	P / NTA (x)	10.0x	12.0x	14.2x	15.4x	14.6x
<b>Assets</b>	<b>36.7</b>	<b>33.7</b>	<b>33.5</b>	<b>32.6</b>	<b>34.2</b>	<b>Gearing</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>
	-	-	-	-	-	Net Debt	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Payables	2.4	3.0	3.0	3.6	4.1	Net Debt / Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Provisions	1.0	0.8	1.5	1.5	1.5	Net Debt / (ND+E)	8.9	Net Cash	Net Cash	Net Cash	Net Cash
Tax liabilities	0.0	0.0	0.0	0.0	0.0	Int cover (x) (EBITDA)	8.5x	7.9x	10.0x	7.2x	-9.6x
Borrowings	0.0	0.0	0.0	0.0	0.0	Int cover (x) (EBIT)	10.1x	9.5x	15.3x	10.8x	-6.4x
Other liabilities	7.2	8.1	8.6	8.6	8.6						
<b>Liabilities</b>	<b>10.6</b>	<b>11.9</b>	<b>13.1</b>	<b>13.7</b>	<b>14.2</b>						
	-	-	-	-	-						
<b>Net Assets</b>	<b>26.1</b>	<b>21.7</b>	<b>20.4</b>	<b>18.9</b>	<b>20.0</b>						
<b>Net Tangible Assets</b>	<b>26.0</b>	<b>21.7</b>	<b>20.4</b>	<b>18.9</b>	<b>20.0</b>						

Source: Shaw Stockbroking

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**Rating Classification**


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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

**Risk Rating**


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High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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