Research Note

Simavita Limited

Fast Growing Pioneer in Digital Healthcare

Chief Research Analyst

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Name:	**Simavita Limited**
Country:	**Australia**
Price:	**AUD 0.585**
ISIN Code:	**AU000000SVA1**
Reuters Code:	**SVA.AX**
Market Cap (AUD m):	**54.0**
EV (AUD m):	**42.9**
Cash & cash eq. (AUD m):	**11.1**
Shares outstanding (m):	**92.25**
Volume:	**74.075**
Free float:	**60%**
52-week Range (AUD):	**0.40-0.64**

AUD million (ending 30/6)	2014A	2015E	2016E
Total Income	0.566	0.900	5.500
Net (Loss)/Profit	(10.514)	(8.500)	(4.000)
Net loss per share (cents)	(0.34)	(0.09)	(0.04)
R&D costs	2.021	2.500	3.500
Cash increase/(decrease)	6.118	2.882	-1.000
Cash and marketable sec.	6.844	9.000	8.000

Executive Summary

- Simavita Limited (ASX: SVA; TSX-V: SV) is an Australian based medical device company in digital healthcare that has developed an innovative and unique solution for the management of urinary incontinence, with a focus on the elderly. Simavita's proprietary Smart Incontinence Management (SIM) platform provides a clear answer to the rising costs associated with urinary incontinence in elderly care, which is by far the largest cost factor for nursing homes in every country. The company is the first to introduce wearable technology into the incontinence market that also showed clear benefits for patients with a much-improved quality of care. In addition to its existing SIM product, Simavita's platform technology also provides other potential applications in falls management, hydration monitoring, Every day Sensor, and toddler training.

- In the past 12 months, the company has made important steps to increase revenues from the SIM platform substantially in the next few years by executing strategic distribution agreements in Australia, North America and Europe. Via these partnerships, Simavita is able to introduce and sell SIM to a growing number of aged care facilities. In addition to its distribution agreements in the US, at the beginning of this year the company signed its first distribution agreement in Europe with Abena A/S to distribute the SIM system in Denmark.

  With its proprietary SIM platform in aged care, the company is a frontrunner in the growing global digital health sector. Digital healthcare is an upcoming discipline that involves the use of information and communication technologies to help address the health problems and challenges faced by patients. The global digital health market was valued at USD 60.8 billion in 2013 and is expected to increase to USD 233.3 billion by 2020. Simavita has an excellent position to become an important player in this sector.

- There are a number of key milestones to focus on in the next 6-12 months which include: announcement of new strategic agreements with one or more large aged facility care chains in the US, an agreement with a major European distributor and the further roll out of Simavita's technology in potentially six more European countries. We also expect the completion of major clinical research programs before the end of this year.

- With the IPO of February 2014 and a follow on raising, the company successfully raised AUD 20.3 million. Additionally, the company managed to raise a further AUD 8.3 million in a private placement in April this year. The current cash level should be sufficient to continue the development of its technology platform to target additional markets. Next to that we expect a considerable increase in revenues in the next 1-2 years that will propel the company towards profitability, especially if Simavita is able to sign up one of the large aged care groups in the US.

- Based on NPV based valuation, we believe that Simavita is clearly undervalued at the current share price of AUD 0.575. Using our valuation model, the Company's current total value is AUD 150-180 million, or AUD 1.60-2.00 per share. This is based on the current value of SIM in aged care and the further roll out of its current products in both North America and Europe. This valuation represents a substantial upside from the current share price.

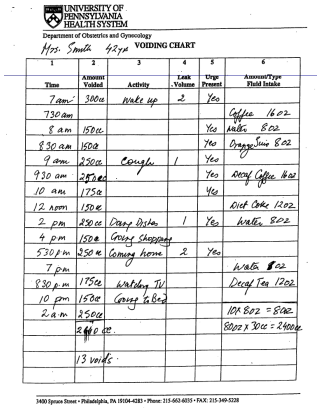
Company Profile & Technology Platform

Simavita Limited (ASX: SVA) is an Australia based medical device company in digital healthcare that has developed an innovative and unique solution for the management of urinary incontinence, with a focus on the elderly. Incontinence is one of the largest costs associated with aged care.

Simavita's main product is the Smart Incontinence Management (SIM) platform technology. SIM is a software-enabled technology that collects and interprets information needed to create a care plan for an elderly person. SIM is currently being sold in Australia (approved by TGA), Europe (CE-Mark) and the US (approved by FDA). In the US, Simavita has an exclusive distribution partnership with MedLine, the largest distributor to the aged care sector in the US. Via MedLine, Simavita has already signed SIM contracts, e.g. with Lorien Health Systems. Importantly, the company recently executed an agreement with the leading US Electronic Health Record (EHR) provider MatrixCare. MatrixCare's EHR solution is currently deployed in more than 7,000 aged care facilities in the US. Simavita is currently working to develop an integrated solution to effect interoperability with MatrixCare's EHR solution. In Australia, the company has signed several distribution agreements with companies like Hartmann and Bunzl to sell and market SIM throughout Australia. In Europe, a first step was set with the distribution agreement with Abena to distribute the SIM system in Denmark.

Currently, around 15 million manual assessments are performed globally, which are often inaccurate and highly labor intensive for the staff and disruptive to residents of nursing homes. Conducting incontinence assessments is an accepted practice in practically all countries in North America, Europe and Australia and is an important element of the care of each individual resident/patient.

Manual, paper based practice



UNIVERSITY OF PENNSYLVANIA HEALTH SYSTEM
Department of Obstetrics and Gynecology
Mrs. Smith 42yo VOIDING CHART

1 Time	2 Amount Voided	3 Activity	4 Leak Volume	5 Urge Present	6 Amount/Type Fluid Intake
7 am	300cc	Wake up	2	Yes	
730 am					Coffee 16oz
8 am	150cc			Yes	Water 8oz
830 am	150cc			Yes	Orange Juice 8oz
9 am	250cc	Cough	1	Yes	
930 am	250cc			Yes	Decaf Coffee 16oz
10 am	175cc			Yes	
12 noon	150cc				Diet Coke 12oz
2 pm	350cc	Crazy Driver	1	Yes	Water 8oz
4 pm	150cc	Crazy Shopping			
530 pm	250cc	Crazy home	2	Yes	
7 pm					Water 8oz
830 pm	175cc	Watching TV			Decaf Tea 12oz
10 pm	150cc	Crazy to Bed			
2 am	350cc				10A 8oz = 8oz
	2400cc				8oz x 30cc = 240cc
	13 voids				

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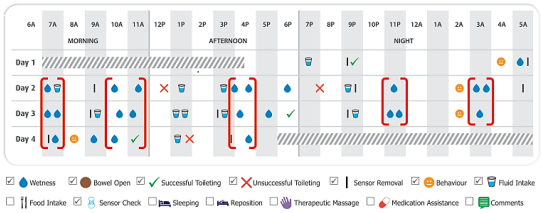
VS

SIM continence management practise



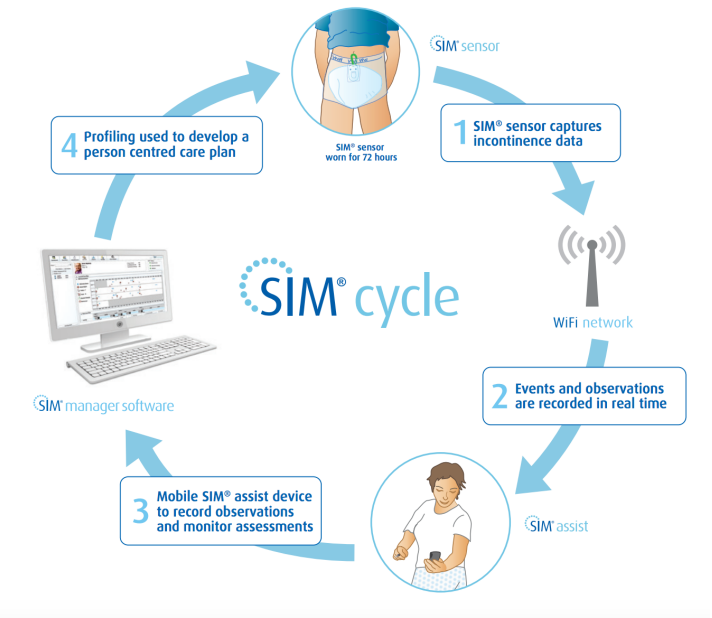
Subjective, inaccurate and labor intensive

Digitized, accurate and cost effective

Key benefits of Simavita's SIM consists of a clear cost reduction in both labor and products and considerable improvements in the working environment. Important is that the SIM system is considered to be more objective and accurate than manual record keeping. In Australia, aged care facilities need to submit data to the Aged Care Funding Instrument (ACFI) in order to receive reimbursement. In the US, the Centers for Medicare and Medicaid Services require nursing homes to meet guidelines that identify and assess each resident with urinary incontinence (UI) and provide appropriate treatment. Failure to comply with these guidelines are used as a basis for claims.

Simavita's business model is based on a razor and blades model. The razors are the SIM pods and the blades are the software subscriptions and smart diapers (assessments), the sale of which provides revenue to the company. Additional potential revenues can be generated with the development of new apps offering additional functionality. Besides, Simavita is building up a large proprietary incontinence patient databank that can be of great importance for large companies like Philips Healthcare or General Electric.

The assessment process via Simavita's SIM is illustrated below.

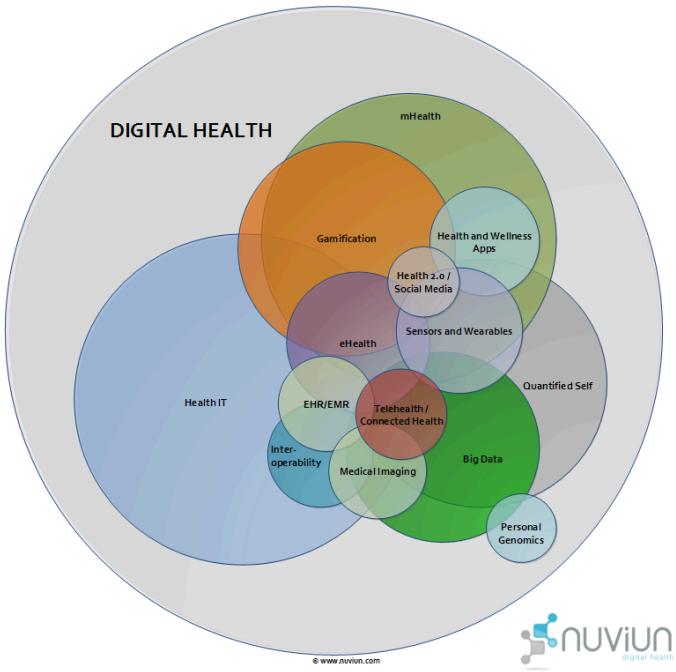


SIM comprises an electronic sensor, which is inserted into a specially designed disposable continence aid (diaper) which is worn by the resident, and a computer software package which manages the information collected and signals alerts (see diagram above). The telemonitoring system provides the care staff with an alert when an older person wearing the device passes urine and transmits and electronically records urinary output. This data is then used to develop an individualised UC care plan.

The company estimates that its proprietary SIM platform reduces the labor costs of conducting assessment by more than 25% with a comparable saving in pad costs and cleaning. In the longer term, these costs can be reduced even more with a strong improvement in effective toileting.

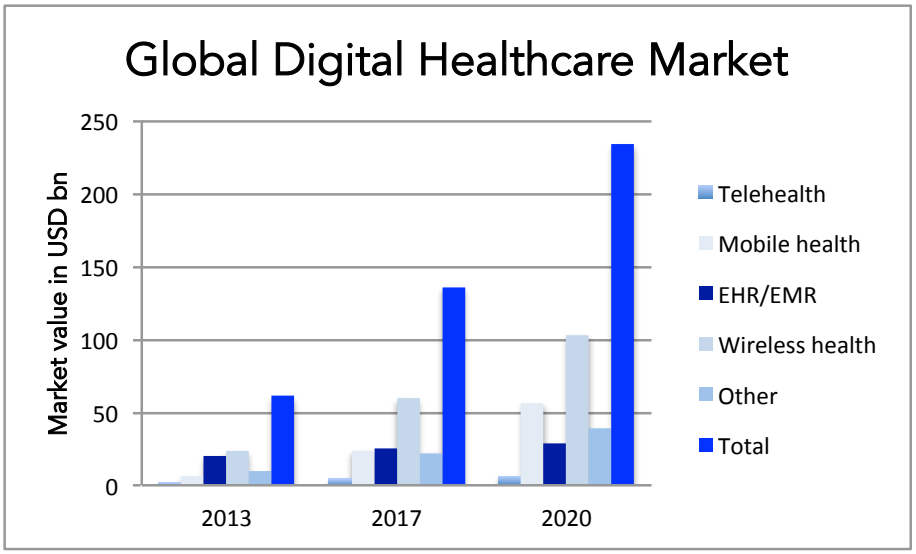
Simavita: Pioneer in fast growing Digital Healthcare

Digital healthcare is an upcoming discipline that involves the use of information and communication technologies to help address the health problems and challenges faced by patients. These technologies include both hardware and software solutions and services. Generally, digital healthcare is concerned about the development of interconnected health systems so as to improve the use of computational technologies, smart devices, computational analysis techniques and communication media to aid healthcare professionals and patients manage illnesses and health risks, as well as promote health and wellbeing.



The global digital health market was valued at USD 60.8 billion in 2013 and is expected to increase to USD 233.3 billion by 2020. During this time, the mobile health segment of the industry is expected to generate the second largest revenue share, reaching USD 55.9 billion in

2020. Wearable technology (sensor based devices worn by consumers) is increasing in importance providing convenient mobile monitoring for health and fitness purposes. The increase in the use of digital healthcare is illustrated in the diagram below.



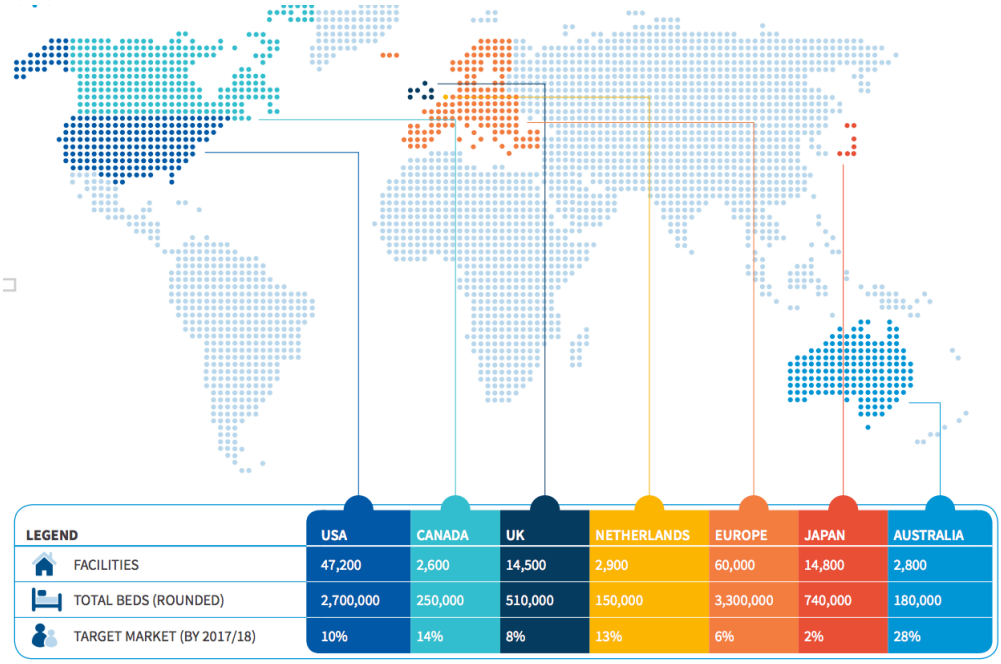
The Global Incontinence Market

Urinary incontinence (UI), the involuntary loss of urine so severe as to have social and/or hygienic consequences for individuals and/or their caregivers, is a major clinical problem and a significant cause of disability and dependency. Urinary incontinence affects all age groups and is particularly common in the elderly. Over the past decade, a considerable amount of research has increased our understanding of the pathophysiology and optimal treatment for this common geriatric condition. However, there is a persistent myth that UI is a normal consequence of aging. While normal aging is not a cause of UI, age-related changes in lower urinary tract function predispose the older person to UI in the face of additional anatomic or physiologic insults to the lower urinary tract or by systemic disturbances such as chronic illnesses common in the elderly.

Frail nursing home residents often have UI that can be significantly improved or cured. Persons with UI should be alerted to the importance of reporting their symptoms to a health care professional and of asserting their right to proper assessment and treatment.

The costs of incontinence have been estimated to be more than USD 10 billion annually in the United States. In nursing homes alone, the costs of labor, laundry, and supplies necessary to manage incontinence and its complications are more than USD 3 billion.

A high percentage of residents in residential aged care facilities (or long term care facilities as they are called in the US) suffer from some degree of incontinence. In Australia there are 2,800 accredited residential aged care facilities housing 180,000 beds. In the US there are 16,100 skilled nursing facilities and a further 43,000 residential care facilities housing 2,700,000 beds.



LEGEND	USA	CANADA	UK	NETHERLANDS	EUROPE	JAPAN	AUSTRALIA
FACILITIES	47,200	2,600	14,500	2,900	60,000	14,800	2,800
TOTAL BEDS (ROUNDED)	2,700,000	250,000	510,000	150,000	3,300,000	740,000	180,000
TARGET MARKET (BY 2017/18)	10%	14%	8%	13%	6%	2%	28%

In addition to residential aged care facilities there is a large and growing number of elderly people being cared for at home. In Australia there are 255,000 elderly people receiving home care services. In the US, there are 2,810,000. Incontinence management is an important issue for these people under care in the community as it is often a trigger point for the loss of independence, and as such a prominent reason to move into an institutionalized care setting.

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, 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.

An ageing population will have a strong upward impact on public spending for long-term care. This is because frailty and disability rise sharply at older ages, especially amongst the very old (aged 80+), which will be the fastest growing segment of the population in the decades to come. For instance, in the EU public spending on long-term care is projected to double, increasing from 1.8% of GDP in 2010 to 3.4% of GDP in 2060 in the EU as a whole.

Analyst: Marcel Wijma MSc

Marcel Wijma, Chief Research Officer and managing partner, has a longstanding history in financial biotech research. After selling Van Leeuwenhoeck Research (VLR) to SNS Securities in 2006, he established an award winning analyst team in biotech/life sciences at SNS Securities. In 2009, Marcel was awarded by Financial Times/Starmine as being one of the Top-3 biotech analysts in Europe. Later that year, Marcel purchased VLR from SNS Securities after which the company was reconstituted. At VLR, he leads the professional VLR research organisation, which is augmented by selected external financial researchers with a specialisation in Life Sciences. Mr. Wijma has a Masters degree in Financial Economics from Erasmus University in Rotterdam.