

12th July 2019

Total Brain

Confirmation channel partner strategy is delivering

Total Brain (ASX:TTB) is an early stage company which has developed a brain performance management platform powered by the largest standardized neuroscientific database in the world formed over almost two decades and with \$50m of R&D funding. The company has announced that in Q4 FY19, three new US organisations had contracted with Total Brain, delivering access to approximately 70,000 new employee participants. These organisations came to Total Brain through channel partner introductions. Total Brain will offer its easy-to-use app to help these employees measure and optimise brain capacities, screen for the risk of mental conditions and improve productivity. In our view, the contracts provide further confirmation that TTB's channel partner strategy is delivering. In further developments, the company also recently appointed former Goldman Sachs partner David Torrible to the board. Our DCF valuation is \$0.123/share and generated from a WACC of 14.9%, terminal value of 2.2% and CAGR in free cashflows from 2022 of 47%.

Business model

Total Brain operates a subscription as a service (SaaS) model for its Brain Performance Management Platform. The science behind the platform has been developed over almost two decades with input from the leading academic institutions in the field. This has generated a proprietary neuroscientific database of scale which underpins the scientific validation that differentiates Total Brain from other brain training and wellness applications. Until late 2017, TTB's focus has solely been on the US corporate market, in particular Fortune 500 companies and large consumer focused entities. In September 2018, the company launched the Total Brain app, designed to capture a share of the estimated US\$5bn mHealth market. The app, promoted by affinity partners, assesses the four core brain capacities (emotion, feeling, cognition, self-control), pre-screens seven common mental health conditions and delivers personalised brain and mind/body training.

Potential to increase registered user base by 10%

In the final quarter of FY19, three US organisations contracted to offer Total Brain's mental health and fitness app to their employees, ~70,000 in aggregate. If 100% of these employees take up the offer, this would add more than 10% to the company's current registered user base. The company noted that in engaging Total Brain, the new customers were seeking multiple benefits including reduced mental health costs, productivity improvement and engagement in a new workforce management paradigm.

Valuation of A\$103.6m

We have used the discounted cashflow methodology to value Total Brain, arriving at a base case valuation of \$103.6m or \$0.123/share. This valuation assumes, and dilutes for, a \$5m capital raising at \$0.08/share in FY20. Our \$103.6m base case valuation is generated from a WACC of 14.9%, terminal value 2.2% and a CAGR of free positive cashflows from 2022 of 47.0%. In our view, continued demonstrated success with the new strategy should underpin Total Brain's share price performance.

Historical earnings and RaaS Advisory estimates (in A\$m)

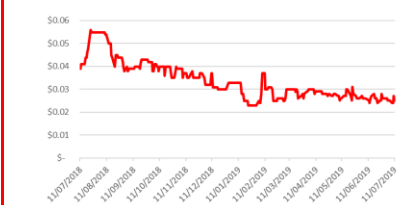
Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	PER (x)	EV/Sales (x)
06/18a	2.6	(4.9)	(23.1)	(6.38)	na	7.6
06/19e	3.3	(7.4)	(6.8)	(1.02)	na	4.5
06/20e	8.7	(5.5)	(4.1)	(0.52)	na	2.0
06/21e	19.0	1.4	0.7	0.08	30.0	0.9

Source: Company data, RaaS Advisory Estimates for FY19e, FY20e, FY21e

Share details

ASX Code	TTB
Share Price	\$0.025
Market Capitalisation	\$21M
Number of shares	777.7M
Enterprise Value	~\$16.5M
Sector	Healthcare Services
Free Float	~57%

Share price performance (12-months)



Upside Case

- Highly scalable SaaS model
- Customers achieve high ROI with ~A\$8,900 in savings per employee
- Targeting predominantly US corporates and consumers

Downside Case

- Need to sell at the Enterprise level which means a sales cycle of 9-12 months for the B2B product
- New consumer product still being fully trialled in market
- Commercial success to date has been elusive

Catalysts

- Further evidence of conversion of leads to B2C subscriptions and leads revenues
- Confirmation of more lead conversions with US corporates

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FINANCIAL SERVICES GUIDE

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Effective Date: 26th November 2018

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