

1<sup>st</sup> August 2019

## Total Brain

### Cost containment as business strategy builds

Total Brain (ASX:TTB) is the developer of a neuroscience-based mental health & fitness 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 it ended Q4 with \$5.2m cash in hand, ahead of our expectations for \$4.86m with good cost containment demonstrated, in our view. Cash at June 30 was \$5.21m. Total Brain also announced it had completed seven new contracts in the quarter which represented a minimum of \$0.18m in annual recurring revenue with potential for additional revenue based on usage and partner penetration. These contracts include the recently announced landmark partnership with American Heart Association's (AMA) Centre for Health Technology and Innovation's (CHTI) Innovators Network to study the impact of heart rate variability on stress and blood pressure. Total Brain also noted that it had acquired a new channel partner in NFP, which focuses exclusively on employee benefits and human resources for 10,000 clients in the US. NFP will also offer Total Brain's app to its 5,000 employees. Further detail on the Q4 result is expected to emerge from the company's forthcoming conference call.

### Business model

Total Brain operates a subscription as a service (SaaS) model for its mental health and fitness 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. 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.

### Q4 result summary

Cash receipts for Q4 were \$0.6m, bringing total cash receipts for the year to \$2.75m an increase of 21% year on year. Q4 receipts reflected recurring revenues. Cash receipts were lower than our forecast for \$3.8m but reflective of the lead times it takes to build the B2B product. Costs of \$9.4m were also lower than our forecast for \$10.8m, resulting in an operating cash loss of \$5.66m, less than our forecast for an operating cash loss of \$5.86m. The company noted it had engaged several new team members during the quarter including David Torrible as non-executive director, and executives Garrett Walker, John Boudreau, Adam Pearson and Peter Lafontaine who all joined the company from Fortune 500 companies or esteemed university positions.

### Valuation of A\$103.6m or \$0.123/share unchanged

We have used the discounted cashflow methodology to value Total Brain, arriving at a base case valuation of \$103.6m or \$0.123/share and 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.

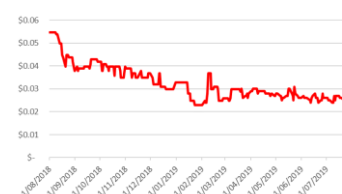
Historical earnings and RaaS Advisory estimates (in A\$m)						
Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	PER (x)	EV/Sales (x)
06/18a	2.6	(4.9)	(23.1)	(6.38)	na	7.6
06/19e	3.3	(7.4)	(6.8)	(1.02)	na	4.3
06/20e	8.7	(5.5)	(4.1)	(0.52)	na	2.0
06/21e	19.0	1.4	0.7	0.08	31.4	0.9

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

#### Share details

ASX Code	TTB
Share Price	\$0.025
Market Capitalisation	\$19.4M
Number of shares	777.7M
Enterprise Value	\$14.2M
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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AFSL 456663

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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