

29th August 2019

## Total Brain

### IBM deal a game changer

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 a significant new partnership with global tech giant IBM (NYSE:IBM) in which Total Brain's technology will be embedded in IBM's THRIVE360<sup>o</sup> Mental Fitness Program as a core functionality. THRIVE360<sup>o</sup> has been chosen by the US Department of Veteran Affairs to power GRIT (Get Results in Transition), a digital solution for US veterans, active-duty service members and reservists. With one in 4 of the US's 20m+ veterans and active-duty service members suffering mental health conditions, we consider this partnership a breakthrough transaction for Total Brain and a significant validation for its technology. We would expect revenue from the take up of THRIVE360<sup>o</sup> likely begin to flow through to Total Brain in H2 FY20 and depending on take up, potentially could exceed our current forecasts for the company. We will be seeking further detail on the partnership when the company reports its FY19 results in the next day or so with the view to reviewing estimates.

### 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.

### IBM transaction details

GRIT, developed in partnership with the US Department of Veteran Affairs (VA), is the first deployment of the THRIVE360<sup>o</sup> platform developed by IBM and embedded with Total Brain's technology. IBM intends to extend the platform to other communities under stress or in transition. As part of the VA contract, IBM will facilitate a field test that concludes in November 2019 and which will engage veterans, active duty service members and reservists to use the GRIT digital solution in real life settings. This will enable IBM and Total Brain to evaluate the user experience and usefulness of the solution. Commercial rollout of the program is likely to commence therefore in the second half of FY20. Commercial terms with IBM should be contracted in this quarter.

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

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 validation of the company's technology should underpin Total Brain's share price performance in the near term.

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

Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	PER (x)	EV/Sales (x)
0618a	2.6	(4.9)	(23.1)	(6.38)	na	7.6
0619e	3.3	(7.4)	(6.8)	(1.02)	na	4.3
0620e	8.7	(5.5)	(4.1)	(0.52)	na	2.0
0621e	19.0	1.4	0.7	0.08	30.1	0.9

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

#### Share details

ASX Code	TTB
Share Price	\$0.024
Market Capitalisation	\$18.7M
Number of shares	777.7M
Enterprise Value	\$12.7M
Sector	Healthcare Services
Free Float	~57%

#### Share price performance (12-months)



#### Upside Case

- Highly scalable SaaS model
- Significant validation achieved over the past six months with major US organisations and companies adopting Total Brain's technology
- 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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