

New revenue streams emerging

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. Total Brain has reported a 98% increase in H1FY20 revenue over H1FY19 to \$2.2m, ahead of our forecast for \$2.1m in half year revenue. The net loss for the period was \$3.9m, a reduction of 13.4% on the previous corresponding half. Total Brain invested in human capital in the half with employment costs rising 32% in the half. We had factored in a 16% rise in staff costs in the first half and 34% growth in 2H FY20. Importantly, the result demonstrated strong growth in new revenue streams from Affinity partners, clinics providing access to Total Brain's platform to their clients, and academic institutions and other parties wanting to licence Total Brain's data assets. We anticipate that the next six months will see further development in these new revenue streams, in particular, from Affinity partners as IBM rolls out its Thrive 360 program with Total Brain at its core to US veterans.

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.

H1FY20 result and earnings adjustments

Total Brain announced H1FY20 revenues of \$2.2m, up 98% on previous corresponding period (pcp) and ahead of our forecast for \$2.1m. The composition of revenue was slightly different to our forecasts with the contribution from corporate customer at \$1.1m vs our forecast for \$1.5m and up from \$0.9m a year ago. Affinity partners which we anticipate will become the biggest contributor of revenues via the IBM Thrive 360, Everyday Health and Mental Health America partnerships delivered first-time revenues of \$0.08m. Clinics and parties seeking to licence Total Brain's data assets generated almost \$1.0m in revenue, more than a five-fold increase on the pcp. Total Brain posted a net loss of \$3.9m for the period, compared with \$4.6m in H1FY19 and our forecast for a \$3.4m loss. We have adjusted our forecasts modestly with small increases to revenue and costs, resulting in an increased loss in FY20 to \$7.0m (previously \$6.6m) but a reduced loss in FY21 (\$1.5m vs \$1.7m previously) and an increased NPAT in FY22 (\$2.7m vs \$2.6m).

Base case valuation is \$142.8m or \$1.25/share

We use the discounted cashflow methodology to value Total Brain, arriving at a base case valuation of \$142.8m (previously \$143.9m) which includes our expectation that the company's \$0.80/share options convert in March 2020, delivering another \$5m. This derives a per share valuation of \$1.25 (previously \$1.26). The terminal value in our base case valuation is \$0.83/share. Further news on the rollout of Thrive 360 to US veterans and other Affinity partnerships should help underpin Total Brain's share price performance.

Historical earnings and RaaS Advisory estimates						
Year end	Revenue (A\$m)	EBITDA reported (A\$m)	NPAT reported (A\$m)	EPS* (c)	P/E (x)	EV/Sales (x)
06/19a	2.6	(6.7)	(8.6)	(12.16)	na	12.3
06/20e	5.4	(6.8)	(7.0)	(7.81)	na	10.7
06/21e	12.3	(1.8)	(1.5)	(1.38)	na	4.9
06/22e	20.8	4.0	2.7	2.49	25.3	2.9

Source: Company data, RaaS estimates for FY20e, FY21e, FY22e *adj for one-time items

Healthcare services

28 February 2020

Share details

ASX Code	TTB
Share price (31 Jan)	\$0.63
Market Capitalisation	\$68.2M
Shares on issue	108.3M
Net cash	~\$13.7m
Free float	~57%

Share performance (12 months)



Upside Case

- Highly scalable SaaS model
- Significant validation achieved with IBM choosing the platform as the engine for Thrive 360
- Targeting predominantly US corporates and consumers

Downside Case

- Enterprise sales cycle for the B2B product takes from 9-18 months
- New consumer product yet to be fully trialled in market
- Commercial success to date has been elusive

Board of Directors

Dr Evian Gordon	Executive Chairman/ Founder
Louis Gagnon	Managing Director/ CEO
Matthew Morgan	Non-Executive Director
Dr Stephen Koslow	Non-Executive Director
David Torrible	Non-Executive Director
David Daglio	Non-Executive Director

Company contact

Email Vasilev (CFO) +646 763 3264
email@totalbrain.com

RaaS Advisory contact

Finola Burke* +61 414 354 712
finola.burke@raasgroup.com

*The analyst holds shares

H1FY20 result

Total Brain reported a 98% increase in revenue in H1FY20 over H1FY19 and an 83% increase in Gross profit to \$1.8m. Costs increased in the half, in particular employee costs which lifted 32% in the half to \$3.7m and ahead of our forecast for \$3.4m. We are not alarmed at the difference to our forecast as we expected the company would invest in people and product to ready itself for the commercial launch of the IBM Thrive 360 platform, development of the clinical market, and the launch of Total Brain 2.0. We had more of that costs growth in H2 FY20 which we continue to maintain. We set out in the following exhibit the H1FY20 result versus the previous corresponding period and our forecast.

	H1FY19 Actual	H1FY20 Actual	% Chg	RaaS H1FY20 forecast
Revenue	1.1	2.2	98.0%	2.1
Gross profit	1.0	1.8	83.2%	1.8
EBITDA underlying	(4.4)	(3.8)	(13.3%)	(3.1)
EBIT underlying	(4.5)	(3.9)	(13.4%)	(3.4)
NPBT	(4.5)	(3.9)	(13.4%)	(3.4)
NPAT	(4.5)	(3.9)	(13.4%)	(3.4)
EPS	(6.9)	(4.8)	(31.0%)	(4.0)

Source: Company data, RaaS estimates

A key feature of the result was the introduction of new revenue streams as a result of Total Brain's Affinity partnerships, clinical markets and data licencing. While Corporate clients delivered a lower than forecast result, the growth from B2B was still up 25%. As the following table demonstrates, data licencing, in particular, delivered higher than forecast and greater than previously booked revenues.

	H1FY19 Actual	H1FY20 Actual	RaaS H1FY20 Forecast
Total Brain Corporate	0.87	1.08	1.52
Total Brain Affinity	-	0.08	0.11
Total Brain all other	0.06	0.10	0.11
Clinical	0.16	0.18	0.16
Discovery	-	0.02	0.04
Data Licencing	0.01	0.73	0.16
Revenue	1.10	2.19	2.10

Source: Company data, RaaS estimates

Total Brain ended H1FY20 with net cash of \$7.6m and has subsequently received shareholder approval for a \$5.9m institutional placement bringing its cash position to ~\$13.7m.

Earnings adjustments

We have adjusted our forecasts to reflect the higher H1 cost base and growth in data licencing revenues. This has flowed through to modest adjustments across our model with a small pullback in the net loss we are forecasting for FY20 but improved forecasts in FY21 and FY22. We set out our changes in the following exhibit.

	FY20 old	FY20 new	FY21 old	FY21 new	FY22 old	FY22 new
Revenue	5.0	5.4	11.3	12.3	19.6	20.8
Gross profit	4.3	4.4	9.8	10.1	17.0	17.1
EBITDA underlying	(6.0)	(6.8)	(1.8)	(1.8)	4.2	4.0
EBIT underlying	(6.8)	(7.1)	(2.7)	(2.3)	3.3	3.6
NPBT	(6.6)	(7.0)	(2.4)	(2.1)	3.6	3.7
NPAT	(6.6)	(7.0)	(1.7)	(1.5)	2.6	2.7

Source: RaaS estimates

DCF valuation

We are of the view that the discounted cashflow methodology is the most appropriate methodology for valuing early stage companies. Our base case DCF valuation of Total Brain is \$142.8m (previously \$143.9m) which includes the recently approved share placement and March 2020 \$0.80 options. This derives a

\$1.25/share valuation (previously \$1.26/share). If we include the 6.94M \$0.80 options issued to employees and with various expiry dates, the valuation is \$1.18/share. Our terminal value is \$0.83/share within this valuation.

Exhibit 4: Base Case DCF valuation	
Parameters	Outcome
Discount Rate / WACC	14.7%
Beta	2.2
Terminal growth rate assumption	2.20%
Sum of PV	41.5
PV of terminal Value	87.2
PV of Enterprise	124.3
Debt (Cash) following recent raise and share placement and includes \$0.80 options expiring March 2020	(18.6)
Net Value - Shareholder	142.8
No of shares on issue (m) (inc March 2020 options converting)	114.6
NPV	\$1.25
Source: RaaS estimates	

Scenario analysis impact

Our model also incorporates an upside case and a downside case based on higher/lower than base case penetration of audiences, higher/lower cost bases but using the same valuation parameters. The following exhibit sets out the upside case and downside case and the CAGR in free cashflow that is estimated in each case. A reverse DCF of the current share price using the same parameters but incorporating the FY19 year-end cash position and current share count (post placement) of 108.3m reveals that the market is factoring in 29.4% CAGR in free cashflow from FY23 to FY29.

Exhibit 5: Base, Upside, Downside and Reverse DCF valuations and CAGR in FCF					
Valuation method	Discount rate	CAGR in FCF	Est + FCFs	Value A\$m	Value per share
Base case DCF valuation	14.7%	41.3%	FY23-29	142.8	\$1.25
An upside case DCF valuation	14.7%	35.8%	FY22-29	430.5	\$3.76
A downside case DCF valuation	14.7%	59.3%	FY26-29	24.0	\$0.21
Reverse DCF*	14.7%	29.4%	FY23-29	70.2	\$0.65
Source: RaaS Estimates *Uses current share count of 108.3m					

Exhibit 6: Financial year financial summary (In A\$m)

Total Brain (TTB.AX)						Share price (27 February 2020)						A\$	0.63						
Profit and Loss (A\$m)						Interim (A\$m)						H119A	H219A	H120F	H220F	H220F	H220F		
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Revenue	1.1	1.5	2.2	3.2	4.9	7.4	EBITDA	(4.4)	(3.7)	(3.8)	(3.0)	(1.8)	(0.0)
Revenue	2.6	2.6	5.4	12.3	20.8	EBIT	(4.5)	(4.0)	(3.9)	(3.2)	(2.0)	(0.2)	NPAT (normalised)	(4.5)	(4.1)	(3.9)	(3.1)	(1.4)	(0.1)
Gross profit	2.5	2.3	4.4	10.1	17.1	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(4.5)	(4.1)	(3.9)	(3.1)	(1.4)	(0.1)
GP margin %	95.3%	87.8%	82.3%	82.3%	82.3%	EPS (normalised)	(6.9)	(0.6)	(4.8)	(3.1)	(1.3)	(0.1)	EPS (reported)	(6.9)	(0.6)	(4.8)	(3.1)	(1.3)	(0.1)
EBITDA	(4.9)	(6.7)	(6.8)	(1.8)	4.0	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0
Depn	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	Operating cash flow	(2.3)	(3.4)	(4.3)	(0.7)	(1.1)	(0.2)	Free Cash flow	(1.0)	(2.0)	(3.2)	0.3	(0.1)	0.8
Amort	(0.1)	(0.4)	(0.3)	(0.4)	(0.4)	Divisonals	H119A	H219A	H120F	H220F	H220F	H220F	B2B Revenue	0.9	0.9	1.1	1.8	2.3	3.6
EBIT	(23.4)	(7.2)	(7.1)	(2.3)	3.6	B2C Revenue	0.1	0.2	0.2	0.5	1.7	2.8	Total Revenue	0.9	1.1	1.3	2.3	4.0	6.5
Interest	(0.5)	0.0	0.1	0.2	0.1	Gross profit	1.0	1.3	1.8	2.6	4.0	6.1	Gross Profit Margin %	106%	114%	143%	116%	102%	94%
Tax	0.8	0.0	0.0	0.6	(1.0)	Employment	2.8	2.7	3.7	3.7	3.9	4.1	Marketing	0.4	0.4	0.4	0.4	0.4	0.4
Minorities	0.0	0.0	0.0	0.0	0.0	Other costs	1.2	1.3	1.5	1.5	1.5	1.6	Total costs	4.4	4.4	5.6	5.6	5.9	6.1
Equity accounted assoc	(0.0)	0.0	0.0	0.0	0.0	EBITDA	(3.4)	(3.1)	(3.8)	(3.0)	(1.8)	(0.0)	EBITDA margin %	nm	nm	nm	nm	nm	0%
NPAT pre significant items	(23.1)	(8.6)	(7.0)	(1.5)	2.7	Margins, Leverage, Returns	FY18A	FY19A	FY20F	FY21F	FY22F	EBITDA margin %	(186.7%)	(258.7%)	(126.1%)	(14.8%)	19%		
Significant items	0.0	0.0	0.0	0.0	0.0	EBIT margin %	(893.4%)	(274.8%)	(132.2%)	(18.3%)	17%	EBIT margin %	(893.4%)	(274.8%)	(132.2%)	(18.3%)	17%		
NPAT (reported)	(23.1)	(8.6)	(7.0)	(1.5)	2.7	NPAT margin (pre significant items)	(882.9%)	(329.4%)	(130.6%)	(12.1%)	13%	NPAT margin (pre significant items)	(882.9%)	(329.4%)	(130.6%)	(12.1%)	13%		
Cash flow (A\$m)						Net Debt (Cash)	6.62	5.21	10.84	7.40	7.92	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	1.96	
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Net debt/Equity (%)	(%)	(43.6%)	(34.8%)	(71.3%)	(43.2%)	(41.0%)	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	(4.1%)
EBITDA	(4.9)	(6.7)	(6.8)	(1.8)	4.0	ROA	(95.8%)	(32.3%)	(29.0%)	(8.3%)	12.8%	ROA	(95.8%)	(32.3%)	(29.0%)	(8.3%)	12.8%		
Interest	0.0	0.0	0.1	0.2	0.1	ROE	(124.4%)	(40.8%)	(30.3%)	(5.9%)	10.4%	ROE	(124.4%)	(40.8%)	(30.3%)	(5.9%)	10.4%		
Tax	0.0	0.0	0.0	0.0	(1.0)	NTA (per share)	41.0%	34.3%	24.1%	22.7%	25.1%	Working capital	82.8%	35.3%	(10.0%)	57.6%	129.1%		
Working capital changes	1.0	1.1	1.6	0.3	(0.6)	WC/Sales (%)	31.6%	13.6%	(1.9%)	4.7%	6.2%	Revenue growth	10.4%	(0.5%)	106.4%	129.5%	68.7%		
Operating cash flow	(3.9)	(5.6)	(5.0)	(1.4)	2.6	EBIT growth pa	n/a	n/a	n/a	n/a	(258.4%)	Pricing	FY18A	FY19A	FY20F	FY21F	FY22F		
Mtce capex	0.0	0.0	(0.1)	(0.1)	(0.1)	No of shares (y/e)	(m)	53	59	108	108	108	Weighted Av Dil Shares	(m)	36	59	108	108	108
Free cash flow	(3.9)	(5.6)	(5.1)	(1.4)	2.5	EPS Reported	cps	(6.38)	(14.53)	(7.61)	(1.38)	2.49	EPS Reported	cps	(6.38)	(14.53)	(7.61)	(1.38)	2.49
Growth capex	(1.7)	(2.7)	(2.1)	(2.0)	(2.0)	EPS Normalised/Diluted	cps	(12.98)	(12.16)	(7.81)	(1.38)	2.49	EPS Normalised/Diluted	cps	(12.98)	(12.16)	(7.81)	(1.38)	2.49
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)	n/a	n/a	n/a	n/a	n/a	nm	EPS growth (norm/dil)	n/a	n/a	n/a	n/a	n/a	nm
Other	(0.1)	0.1	0.0	0.0	0.0	DPS	cps	-	-	-	-	-	DPS	cps	-	-	-	-	-
Cash flow pre financing	(5.7)	(8.2)	(7.2)	(3.4)	0.5	DPS Growth	n/a	n/a	n/a	n/a	n/a	n/a	DPS Growth	n/a	n/a	n/a	n/a	n/a	n/a
Equity	10.5	6.7	13.1	0.0	0.0	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt	(0.1)	0.0	0.0	0.0	0.0	Dividend imputation	30	30	30	30	30	30	Dividend imputation	30	30	30	30	30	30
Dividends paid	0.0	0.0	0.0	0.0	0.0	PE (x)	-	-	-	-	-	25.3	PE (x)	-	-	-	-	-	25.3
Net cash flow for year	4.7	(1.5)	5.9	(3.4)	0.5	PE market	15.8	15.8	15.8	15.8	15.8	15.8	PE market	15.8	15.8	15.8	15.8	15.8	15.8
Balance sheet (A\$m)						Premium/(discount)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	60.0%	Premium/(discount)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	60.0%		
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	EV/EBITDA	(8.2)	(4.7)	(8.5)	(33.2)	14.9	EV/EBITDA	(8.2)	(4.7)	(8.5)	(33.2)	14.9		
Cash	6.6	5.2	10.8	7.4	7.9	FCF/Share	cps	(7.3)	(9.6)	(4.6)	(1.2)	2.5	FCF/Share	cps	(7.3)	(9.6)	(4.6)	(1.2)	2.5
Accounts receivable	1.3	0.8	0.7	1.4	2.2	Price/FCF share	(8.6)	(6.6)	(13.7)	(53.7)	25.2	Price/FCF share	(8.6)	(6.6)	(13.7)	(53.7)	25.2		
Inventory	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield	(11.6%)	(15.2%)	(7.3%)	(1.9%)	4.0%	Free Cash flow Yield	(11.6%)	(15.2%)	(7.3%)	(1.9%)	4.0%		
Other current assets	0.0	0.2	0.3	0.3	0.3														
Total current assets	8.0	6.2	11.8	9.1	10.4														
PPE	0.2	0.2	0.3	0.3	0.4														
Goodwill	0.0	0.0	0.0	0.0	0.0														
Intangibles	14.7	14.9	15.5	17.1	18.7														
Deferred tax asset	0.0	0.0	0.0	0.0	0.0														
Other non current assets	0.0	0.0	0.0	0.0	0.0														
Total non current assets	14.9	15.2	15.8	17.5	19.1														
Total Assets	22.9	21.4	27.6	26.6	29.4														
Accounts payable	0.5	0.5	0.8	0.8	0.9														
Short term debt	0.0	0.0	0.0	0.0	0.0														
Tax payable	0.0	0.0	0.0	0.0	0.0														
Deferred revenue	0.5	0.6	0.7	1.1	1.2														
Total current liabilities	1.0	1.1	1.5	1.9	2.1														
Long term debt	0.0	0.0	0.0	0.0	0.0														
Other non current liabs	0.1	0.1	0.1	0.1	0.1														
Total long term liabilities	0.1	0.1	0.1	0.1	0.1														
Total Liabilities	1.1	1.2	1.6	2.0	2.2														
Net Assets	21.8	20.2	26.0	24.5	27.2														
Share capital	58.1	64.8	77.6	77.6	77.6														
Accumulated profits/losses	(40.2)	(48.8)	(55.8)	(57.3)	(54.6)														
Reserves	3.9	4.2	4.3	4.3	4.3														
Minorities	0.0	0.0	0.0	0.0	0.0														
Total Shareholder funds	21.8	20.2	26.0	24.5	27.2														

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018



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

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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