

## Sphere Medical

### Funding to support Proxima 4 roll-out being finalised

**Sphere Medical has announced that plans for a fund raise are being finalised. Soundings from both existing and prospective new investors suggest there is support for an equity issue. We remind that the current use of cash is around £7-8m per annum. An operating update shows that interest in Proxima 4 continues to build and the number of product demonstrations and evaluations is rising. The three distributors have received their initial supplies and started their marketing campaigns. Our valuation is placed under review until details of the financing plan are announced.**

Year-end: December	2015	2016	2017E	2018E
Sales (£m)	0.0	0.0	0.4	1.7
Adj. PBT (£m)	(6.0)	(5.1)	(6.2)	(5.7)
Net Income (£m)	(5.5)	(4.5)	(5.7)	(5.3)
Adj. EPS (p)	(5.3)	(3.2)	(3.9)	(3.6)
Cash (£m)	10.0	3.2	7.0	0.7
EBITDA (£m)	(6.0)	(5.0)	(5.4)	(4.7)

Source: Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals.

- Funds to be raised to support Proxima 4** Sphere Medical has conducted market soundings with existing and prospective institutional investors that suggest an appetite for an equity raise. The lengthy sales cycles, coupled with continuing development expenditure, means we forecast cash out-flows for the coming years. To remind, we estimate the current use of cash is around £7-8m per annum and that a £3m loan facility from Silicon Valley Bank is in place.
- Hospital evaluations continue to build** The interest in Proxima 4 is rising, with the number of hospitals requesting evaluations now up to 55, of which 38 have had product demonstrations. This compares with 40 and 30 respectively at the update in May. Six hospitals, across three countries, have placed orders since Proxima 4 was first launched in December 2016. The distributors for the Italian, Spanish, and Austrian markets have taken their initial supplies and have started performing patient evaluations.
- Supply issues resolved and yields back on track** The operational issues in production that were mentioned in the May trading update have been addressed. Sensor yields have been improved and supply is now restored. The Welsh manufacturing site should have sufficient capacity to manufacture all of Proxima's forecast needs for the near- and medium-term.
- Valuation placed under review until details are known** Whilst the confirmation that an equity fund raise is being finalised does remove a major concern, we have placed our valuation under review until the details have been disclosed (presumably within a matter of weeks). For reference, our previous valuation was £30.2m, equivalent to 21.3p a share.

Price (Sterling)	7.88p
Market Cap	£11.2m
Enterprise Value	£11.8m
Shares in issue	141.8m
12 month range	5.0-14.5p
Free float	100%
Primary exchange	AIM London
Other exchanges	NA
Sector	Healthcare
Company Code	SPHR.L

Corporate client Yes



#### Company description:

Sphere Medical develops and commercialises medical monitoring and diagnostic equipment. Its lead product, Proxima, provides near real-time analysis of blood gases, electrolytes, and metabolites at the patient's bedside within critical care.

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**Exhibit 1: Summary of financials**

Year-end: December 31	£'000s	2014	2015	2016	2017E	2018E
<b>INCOME STATEMENT</b>						
<b>Revenues</b>		<b>14</b>	<b>15</b>	<b>30</b>	<b>378</b>	<b>1,656</b>
Cost of goods sold		(4)	(2)	(20)	(151)	(579)
<b>Gross Profit</b>		<b>10</b>	<b>13</b>	<b>10</b>	<b>227</b>	<b>1,076</b>
R&D Expenses		(3,460)	(2,954)	(2,119)	(1,974)	(1,988)
Sales, General and Administrative Expenses		(2,485)	(3,172)	(3,032)	(4,290)	(4,578)
<b>Underlying operating profit</b>		<b>(5,935)</b>	<b>(6,113)</b>	<b>(5,141)</b>	<b>(6,037)</b>	<b>(5,490)</b>
Share based payments		(194)	(128)	0	(154)	(161)
<b>EBITDA</b>		<b>(5,778)</b>	<b>(5,999)</b>	<b>(4,992)</b>	<b>(5,441)</b>	<b>(4,684)</b>
<b>Operating Profit</b>		<b>(5,935)</b>	<b>(6,113)</b>	<b>(5,141)</b>	<b>(6,191)</b>	<b>(5,651)</b>
Interest income		64	91	72	(169)	(241)
<b>Profit Before Taxes</b>		<b>(5,871)</b>	<b>(6,022)</b>	<b>(5,069)</b>	<b>(6,360)</b>	<b>(5,892)</b>
<b>Adj. PBT</b>		<b>(5,871)</b>	<b>(6,022)</b>	<b>(5,069)</b>	<b>(6,206)</b>	<b>(5,730)</b>
Current tax income		524	557	556	674	589
<b>Net Income</b>		<b>(5,347)</b>	<b>(5,465)</b>	<b>(4,513)</b>	<b>(5,686)</b>	<b>(5,303)</b>
<b>EPS (p)</b>		<b>(9.0)</b>	<b>(4.8)</b>	<b>(3.2)</b>	<b>(4.0)</b>	<b>(3.7)</b>
<b>Adj. EPS (p)</b>		<b>(9.9)</b>	<b>(5.3)</b>	<b>(3.2)</b>	<b>(3.9)</b>	<b>(3.6)</b>
<b>DPS (p)</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Average no. of shares (m)		59.3	114.5	141.8	141.8	141.8
<i>Gross margin</i>		<i>71%</i>	<i>87%</i>	<i>33%</i>	<i>60%</i>	<i>65%</i>
<i>EBITDA margin</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Underlying operating margin</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<b>BALANCE SHEET</b>						
<b>Current assets</b>		<b>4,122</b>	<b>10,539</b>	<b>3,849</b>	<b>7,931</b>	<b>1,642</b>
Cash and cash equivalents		3,703	10,028	3,241	6,986	718
Accounts receivable		204	127	181	181	181
Inventories		215	384	427	427	427
Other current assets		0	0	0	337	316
<b>Non-current assets</b>		<b>120</b>	<b>999</b>	<b>3,117</b>	<b>4,685</b>	<b>6,088</b>
Property, plant & equipment		108	103	189	299	405
Intangible assets		12	896	2,928	4,386	5,682
<b>Current liabilities</b>		<b>(638)</b>	<b>(925)</b>	<b>(757)</b>	<b>(8,757)</b>	<b>(8,757)</b>
Short-term debt		0	0	0	(8,000)	(8,000)
Accounts payable		(635)	(925)	(757)	(757)	(757)
Other current liabilities		(3)	0	0	0	0
<b>Non-current liabilities</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,182)</b>	<b>(3,437)</b>
<b>Equity</b>		<b>3,604</b>	<b>10,613</b>	<b>6,209</b>	<b>677</b>	<b>(4,464)</b>
<b>CASH FLOW STATEMENTS</b>						
<b>Operating cash flow</b>		<b>(5,584)</b>	<b>(5,026)</b>	<b>(4,449)</b>	<b>(4,937)</b>	<b>(3,899)</b>
Profit before tax		(5,935)	(6,113)	(5,141)	(6,191)	(5,651)
Non-cash adjustments		351	242	329	903	1,128
Change in working capital		(524)	197	(265)	0	0
Interest paid		0	91	72	14	14
Taxes paid		524	557	556	337	610
<b>Investing cash flow</b>		<b>27</b>	<b>(993)</b>	<b>(2,267)</b>	<b>(2,318)</b>	<b>(2,370)</b>
CAPEX on tangible assets		(38)	(993)	(2,267)	(2,318)	(2,370)
Other investing cash flows		65	0	0	0	0
<b>Financing cash flow</b>		<b>9</b>	<b>12,344</b>	<b>(71)</b>	<b>11,000</b>	<b>0</b>
Proceeds from equity		26	12,346	(71)	0	0
Increase in loans		0	0	0	11,000	0
Other financing cash flow		(17)	(2)	0	0	0
<b>Net increase in cash</b>		<b>(5,548)</b>	<b>6,325</b>	<b>(6,787)</b>	<b>3,745</b>	<b>(6,268)</b>
Exchange rate effects		0	0	0	0	0
Cash at start of year		9,251	3,703	10,028	3,241	6,986
<b>Cash at end of year</b>		<b>3,703</b>	<b>10,028</b>	<b>3,241</b>	<b>6,986</b>	<b>718</b>
<b>Net cash at end of year</b>		<b>3,703</b>	<b>10,028</b>	<b>3,241</b>	<b>(4,196)</b>	<b>(10,719)</b>

Source: Sphere Medical, Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals.

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