Tuesday, 16 May 2017

RESEARCH REPORT

LODGE PARTNERS

Simavita Limited

Simplifying & Refocussing within the Continence Market

BUY

12 Month Target	$0.12+
Price	$0.04
Implied Return	200%+

Marc Sinatra
+61 3 9200 7000
m.sinatra@lodgepartners.com.au

Company Data

ASX code	SVA
ASX price	4.0 cents
Shares on issue	325m
Market capitalisation	$13.0m
12 month price range	3.4-9.6 cents
ASX turnover (shares, Apr 2017)	847k

Financials

	2016A	2017F	2018F	2019F
Revenue[1]	0.8	0.9	6.4	15.9
Expenses ($m)	-12.3	-8.2	-8.7	-11.8
NPAT ($m)	-11.5	-7.3	-2.3	4.1
EPS (cents/share)	-4.5	-2.0	-0.6	1.1
Cash	6.2	1.3	0.7	1.8

[1]Ex "alert" revenues

Key Personnel

Mr Michael Spooner	Chairman
Dr Gary Pace	Director
Mr Warren Bingham	Director
Ms Peta Jurd	Chief Commercial Officer
Peter Curren	Chief Technology Officer

The Company

Simavita Limited is an ASX-listed company dedicated to helping those with continence problems to manage those problems in a cost-effective and quality of life improving manner. Mid-last year, the company underwent a management change and a significant restructure. As a result, the company has pivoted towards easier to use products, with larger target markets and a greatly reduced business cost structure.

Products

SIM™: The company's flagship product. It was built as an aged care facility (ACF) to facility-group wide complete solution for continence assessment. This product has been shown to significantly reduce: consumable (pad) usage, time nurses spend toileting residents and the incidence of continence related health issues. Observationally, it has improved the quality of life of residents.

AssessPLUS: Essentially, a standalone, simplified, version of SIM™, which can be used in the field with persons receiving home care, in addition to use in ACFs and other places continence issues arise. It opens up the community care market for Simavita, which is generally of equal size, if not larger, to that of the ACF market. It was designed specifically to counter the reasons ACFs were pushing back on purchasing.

"Alert" product: In the late stages of development, the alert product is designed to alert carer's when a patient's pad is full and at risk of wetting the patient and their surrounds. This is the company's blue-sky product, with many trying, but none succeeding, in developing a suitably inexpensive solution. Simavita believes it can licence the product soon for one or more seven figure upfront payments and a royalty (1-2 cents) per pad. An "alert" product could be worth up to 96 cents per share, depending on the probability weighting it's given.

Additional products: Simavita's technology lends itself to further innovation and the company intends to develop further products based on it. One product is a peel and apply sensor that would make any pad suitable for use with SIM™ or AssessPLUS. It lowers cost substantially, while also making the product more appealing to consumers. A further innovation in the works is a sensor for faecal material for those with bowel continence issues.

Sales, Marketing & Administration

New management took a knife to sales and marketing (-27% 1H FY17 vs. PCP), and general and administration (-43%), without an apparent effect on sales (+26%). They are also re-aligning distribution to work through break-pack and home care providers to maximise market exposure, via appropriate partners.

Valuation

We have arrived at a valuation of 12 cents per share using a discounted cash flow methodology and a narrow definition of severe incontinence and, hence, market size. The "alert", on which management appears very bullish, could increase the valuation by multiples. We take a closer look at that in the report.

Recommendation

We initiate coverage of Simavita with a **BUY recommendation** and a **12-month price target of 12 cents plus** (the value attributable to the "alert" product).

Simavita Limited

Simplifying & Refocussing within the Continence Market

Continence

While rarely talked about, continence (accidental or involuntary loss of urine from the bladder or faeces from the bowel) is a strikingly significant health issue. More than 4.2m Australians over the age of 15 have issues with continence (Deloitte Access Economics (DAE), 2011: The economic impact of incontinence in Australia). Specifically, up to 13% of Australian men and 37% of Australian women have issues with urinary continence (Australian Institute of Health and Welfare report, 2006). The issue is significantly greater in the elderly, with approximately 71% or 129,000 residents of nursing homes suffering urinary incontinence (DAE, 2011: The economic impact of incontinence in Australia) and approximately half of all residents wet the bed each night (Steel & Fonda 1995: Minimising the cost of urinary incontinence in nursing homes, Pharmacoeconomics).

➢ **Continence is a very widespread issue**

Economically speaking, the cost of incontinence in Australia is huge, coming in at $42.9b or approximately $9,000 per incontinent person per year (DAE, 2011). The government wears approximately 20% of these costs, while individuals wear approximately 74% (DAE, 2011). When the monetary value of burden of disease is taken into account, the overall cost of incontinence in Australia in 2010 was just under $67b or approximately $14,000 per incontinent person per year (DAE, 2011).

➢ **The total cost of incontinence is very large**

The point of these figures is not to define a specific addressable market for a continence product, but rather to highlight the dollars involved in continence and to indicate that a company with the appropriate product(s) and strategy, should easily be able to garner the revenues necessary to build a very significant business.

➢ **The dollars are there in the continence market for the right product(s) and strategy**

The Right Products

The product Simavita had in the market at its ASX listing was, arguably, broadly, the right one. Without going into great detail, SIM™ (Smart Incontinence Management) was designed to conduct continence assessments and capture as much information about a nursing home resident's toileting habits as possible to enable the nurses at the facility to produce a detailed toileting plan for the resident, without having to regularly go and manually assess the resident's continence status over the three day assessment period. The benefits of SIM™ in the facilities in which it was successfully deployed included:

- Reduced consumable pad (nappy/diaper/pull-up) usage
- Reduced in nurse/attendant time dedicated to toileting
- Reduced fewer incontinence related health issues (skin and urinary tract infections, falls)
- Improved resident behaviour/mood

➢ **SIM™ has provided proof of concept for the technology broadly**

Simavita Limited

Simplifying & Refocussing within the Continence Market

The available information, however, indicates that SIM™ represents a product with appeal to a reasonably small segment of the aged care facility (ACF) market. The segment it appeals to appears to be that with a stable employee base, and a mission and management focused on quality of care and meeting or exceeding care guidelines. We have gleaned this from one of the company's previous presentations (ASX announcement, 23/6/16), which indicates SIM™ suits high end ACFs, where the long sales lead time is rewarded by continued use of the system. Without those "high end" principals, the facilities use of SIM™ declines over time, with high staff turnover contributing to a lack of organisational knowledge of the product. Consequently, Simavita becomes required to provide the facility with a high level of ongoing training. Essentially, SIM™ solves the problem of assessing the continence of individuals, but is too complex for most ACFs to implement and maintain.

- **SIM™ too complex a continence solution for most ACFs**

New Directors, New Management, New View

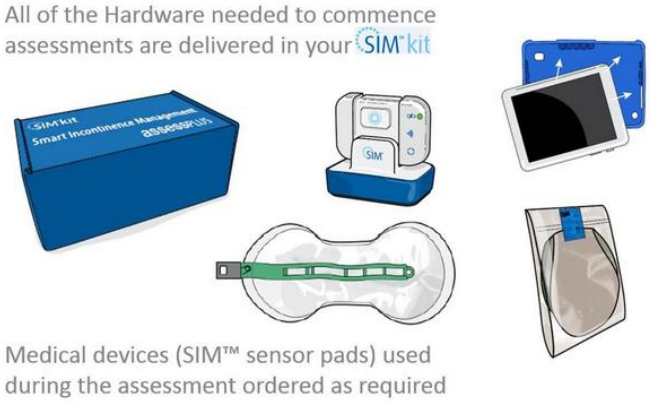
Shareholders agitated for and received a new management team for the company in mid-2016. The new team, which included well-credentialed directors, Michael Spooner (director at Mesoblast) and Gary Pace (director at Resmed), quickly identified the issues with Simavita and those with SIM™ and set about implementing a turnaround. Recognising that the general SIM™ technology was flexible enough to provide several different solutions that would broaden the technologies' appeal, the new management team pivoted the company towards easier to use products, larger target markets and, importantly, a greatly reduced business cost-structure.

- **Recognition that the broad SIM™ technology can support products of varying complexity**

AssessPLUS

While SIM™ is a facility/organisation wide product, supported through the cloud, assessPLUS (figure 1) can be viewed as a standalone, portable, product suitable for assessing a person's continence status essentially anywhere, from large ACFs to home assessments conducted by visiting nurses.

Figure 1. AssessPLUS as delivered in the SIM™ Kit.



While the product does not have the power of SIM™, neither does it require the same level of infrastructure, training and ongoing support. Importantly, though, the product still allows for the adequate assessment of an individual's continence status, enabling the carer to:

- Choose the appropriately sized pad or pads
- Determine an optimal toileting schedule
- Link behaviours and other occurrences with an individual's continence status

Simavita Limited

Simplifying & Refocussing within the Continence Market

The company believes, and we can see the logic, that assessPLUS can fill a distinct market need, and that, overtime, SIM™ and assessPLUS, with some ongoing product development, will be able to cover most of the market niches, from low/mid end to the premium end of the continence assessment market.

- **AssessPLUS could fill continence assessment needs for much of the low/mid to mid/high market segments**

Low Cost "Alert" Product

Little has been said publically about this product, but we believe it would be a pad attached to a reusable Bluetooth pod, which sends the patient's carer an alert to their smartphone, or other suitably enabled device, each time the patient uses the pad. The signal received by the device indicates how much liquid the pad has absorbed and how close it is to needing to be changed (figure 1.)

- **A product that "alerts" a patient's carer that the patient's nappy has reached capacity**

Figure 1. Simavita's "alert" technology, with no, moderate and heavy liquid loads (left to right).

Source: Simavita Ltd

Simavita does not intend to market the "alert" product itself. Such a product would require bulk manufacturing and that is not a game the company wants to be in, nor is it one we believe the company should be in. The strategy with the product is to licence the technology, either at a worldwide or regional level, for adults or infants, to one or more of the large pad producers.

- **Simavita intends to licence the "alert" technology to pad makers**

Pads, due to a lack of innovation, have become a commoditised item, where there is little difference between one company's products and another's. As such, they, generally, compete on the basis of price and competition is fierce. Because they compete on price, any additional cost in the form of a sensor must be minimal, in the range of 1 to 5 cents per pad, according to Simavita. Others have apparently tried to develop "alert"-type products, but have failed at the level of cost. Simavita's management, however, has indicated that they are extremely confident they can develop an "alert" product within those cost constraints.

There does appear to be considerable interest in such a product, based on activity in the area before, and we believe several companies have expressed an interest in Simavita's "alert" product, with several players currently in discussions with the company and others undertaking due diligence. The appeal of an "alert" product to the large manufacturers lies in such a product's ability to differentiate the manufacturer's offering. This appeal is only heightened by the lack of existing differentiators between companies.

- **Interest in the "alert" product is being driven by manufacturer's desire to differentiate themselves**

Simavita Limited

Simplifying & Refocussing within the Continence Market

Looking at the appeal of an "alert" product from the user's point of view, the advantages, specifically for them, one can imagine, would include:

- Decreased wastage, as pads would be changed when they are full
- Decreased time/cost cleaning items, such as bedding, which becomes wet when a pad is used for too long
- Improved quality of life of the wearer through improved personal hygiene and comfort

In residential and aged care facilities, an "alert" product would likely appeal for similar reasons, although the emphasis on each may be different.

➢ **Drivers for the use of an "Alert" product would be multiple and, likely, somewhat market dependent**

Simavita's management have expressed the view that they will licence the "alert" in return for an upfront cash payment and a royalty on each pad produced. Obvious comparables to estimate the metrics for such a deal are hard to find. Our belief is that Simavita will be seeking a seven-figure upfront payment, the size of which would depend on the markets the licence would cover. The royalty per pad is likely to be small, given the tight margins associated with pad production, at around the 1 cent to 2 cents per pad. Given the worldwide market for adult incontinent products is USD7.2b, such a royalty would quickly equate to millions of dollars per year in revenue.

➢ **"Alert" licence: seven figures upfront, plus a royalty on each pad produced**

While the question of licencing timelines is also similar to the question, we believe a deal or deals could well be done in the next six months. All the manufacturers have almost certainly looked at similar products and would already have an idea whether a product fits the bill or not. We do not envisage protracted due diligence periods that are often associated with licencing type arrangements in the pharmaceutical or medical device industries.

➢ **Protracted due diligence unlikely, a deal could come soon**

What could an "alert" product be worth?

A large part of determining the value of an "alert" type product is the probability that development of the product can be completed, that suitable licencing terms can be negotiated and, of course, that the product sells. Accurately deriving a value is difficult, because of the questions that need to be asked and the large degree of inherent uncertainty in the answers. Therefore, we have constructed a model and derived the per share pay-offs of that model, given various probabilities of success. The output from that exercise is given in table 1.

Table 1. The pay-off in terms of cents per share at various probabilities of success and royalties per pad for an "alert" type product

Probability of success	20%	40%	60%	80%	100%
1 cent per pad royalty	+9.6¢	+19.2¢	+28.8¢	+38.4¢	+48¢
2 cent per pad royalty	+19.2¢	+38.4¢	+57.6¢	+76.8¢	+96¢

The model the table is based on assumes:

- A discount rate of 15%, terminal value growth rate of 2.5%, pad market growth of 7%
- 20 billion adult pads are produced per year (Euromonitor International – Adult incontinence market research, March 2016)
- Licences can be struck with two manufacturers in FY18

Simavita Limited

Simplifying & Refocussing within the Continence Market

- Each Licencee pays an upfront of USD5 million
- The stated royalty commences in FY19
- 2.5% market penetration in the first year
- 5% market penetration in the years thereafter

- **An "alert" type product could be worth up to 96 cents per share**

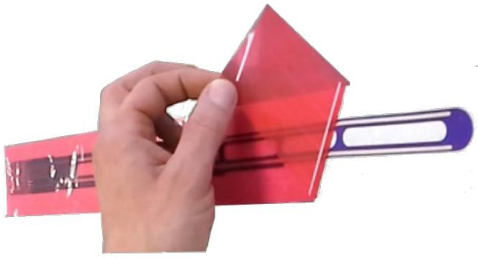
Further Product Development

There remains room for further innovation in the products Simavita has and is developing, as well as the prospect for new products. Another obvious product or product improvement would be a sensor to detect faecal matter.

- **A great deal of room exists for further innovation**

From a cost/ease of use point of view, one of the more interesting propositions that is under development is a peel and apply sensor (figure 2) to be used in the SIM™ and assessPLUS products. Currently, the sensor must be manufactured into the nappy, which leads Simavita to be involved, even though outsourced, in a business, pad production, they don't want to be involved in. Moreover, pads are also bulky by nature, attracting increased storage and shipping costs.

Figure 2. Simavita's prototype peal and apply sensor.



Source: Simavita Ltd

The idea behind peel and apply is as it sounds. The person performing the assessment uses a pad the patient already owns and applies the sensor strip to it, before fitting the patient and attaching the data collection pod. This would be a very significant improvement on the current state of affairs, essentially, eliminating a significant cost centre of the business, while making things easier and more comfortable for the end users.

- **"Peel and Apply" obviates the need for Simavita to be involved in pad manufacturing and storage**

There is some development risk with the peel and apply sensor. Obvious potential problems include, problematic differences in the design of different pad brands and apply requirements that result in an unacceptable number of failures. These, intuitively, seem to be issues that fall on the lower end of the risk spectrum. As long as, the product is bedded down for the more popular brands of pads and the instructions are suitably clear, few issues seem likely to arise.

The New Market Landscape

It seems a fair criticism that SIM™ was seen by previous management as the ultimate solution to continence management, when, in fact, there is a gradient of needs, requiring a few solutions.

The not-for-profit Continence Foundation of Australia believes that 4.8 million individuals or 20% of Australians are affected by incontinence. The definition of incontinence here is important and figures like these generally relate the number of people who

experience any involuntary leakage of urine. A recent mum suffering mild stress incontinence isn't likely to require an assessment. Still, the number of people experiencing incontinence remains staggering

There are four main buckets into which the market for continence assessment can be classified, based largely on where people live. They are:

- Aged care facility residents
- Elderly living in a residential setting (home, retirement village, etc)
- Disabled persons in residential settings
- Patients who have diminished/lost continence, as a result of a medical issue (e.g. stroke), undergoing rehabilitation

The best available definition to define the incontinence assessment market is probably the definition of severe incontinence (SI), which is defined as:

- *"Always or sometimes needing assistance with managing bladder or bowel control and/or uses incontinence aids"*

While this definition is, arguably, too narrow, it does facilitate analysis of market size by providing firm numbers and a base to work from.

According to the Australian Institute of Health and Welfare's (AIHW) publication, Australia's Health 2016, 1.8% of the Australian population is classified as SI. This equates to 435,000 individuals overall, based on Australia's population at the moment. The highest concentration of SI individuals is in Australia's ACFs, where 81% of women and 65% of men are severely incontinent (AIHW, Australia's Health 2016). By our calculations this means that, overall, 76% or about 150,000 of residents in ACFs are SI, once the differences in gender are accounted for. The remaining 285,000 with SI are found in the community and will include the elderly, disabled individuals with SI, those with a medical issue that has resulted in SI and the few remaining individuals that do not fall into the former categories.

➢ **Using a narrow definition, there are 435,000 people with SI in Australia**

It is worth noting, that the AIHW believes only about one third of SI individuals seek medical attention and are included in existing numbers. There is a stigma attached to incontinence which, they believe, leads to the majority of individuals suffering it to remain silent. If, in future, there is a dramatic improvement in the identification of SI individuals in the community, the market size addressable by Simavita's products could, theoretically, triple. With this in mind, it is worth noting that there was a 24% increase in the number of SI Australians between 2009 and 2012, such that some improved identification of SI individuals may already be occurring.

➢ **Existing numbers are thought to miss 2/3 of people with SI**

Incontinence Assessment in Australia

While it is easy relatively easy to find numbers that allow you to derive an estimate of the number of Australians likely to have an incontinence assessment at some point in the near future, some guesswork is required.

Every new entrant to an ACF is screened for incontinence and, if they are found to be incontinent, they undergo an incontinence assessment. An incontinence assessment is, generally, a three day period when a patient's continence is intensively monitored via pad checks and toileting times. The assessment includes observational data, such as food and liquid intake, as well as behaviour and other occurrences of note. The outputs from the assessment include optimal pad size and toileting times.

According to the AIWH, turnover in Australian ACFs is stable at 33% (AIHW, Residential Aged Care Facilities, 2010-2011). Longer Residents may also have an incontinence assessment upon a change of status (i.e. they become incontinent or their continence behaviour changes). We have assumed that incontinent residents are assessed once every two years, in addition to their assessment upon arrival at the ACF. Additionally, there are places in ACFs for respite care, where the aged can be place for a number of weeks to months to give their carers a break. We have assumed that each of these respite residents will have their continence assessed. Table 2 provides the results of our calculations.

- **There are good numbers on SI in ACFs**

It is more difficult to determine what is occurring in the community setting. There are several programs through which SI individuals can be identified. These include home care packages for the aged, the Continence Aids Payment Scheme and, once in full swing, the National Disability Insurance Scheme (NDIS). Many of these programs will carry out incontinence assessments in the community, as required, particularly in cases where an assessment is required to access funding. For the sake of simplicity, we have assumed that SI individuals in the community will have an incontinence assessment once every five years. For older residents in the community, this frequency of assessment may be too low. While many individuals who are incontinent due to another disability (incontinence, itself, is considered a disability) may remain stable for long periods of time and this frequency may be too high.

- **SI and continence assessment needs in the community are harder to understand and predict**

Table 2. The number of continence assessments conducted in Australia each year.

Group	No. Individuals	No. Assessments
New ACF Residents	48,500	48,500
Existing ACF residents	147,000	73,000
Respite ACF Residents	43,000	43,000
Community Residents	289,000	58,000
	Total	222,500

Source: Lodge Partners Research

Incontinence Assessment in Europe and USA

As noted, there is very significant variation between studies that attempt to quantify the number of people with continence. A large part of this is due to differences in the way incontinence is defined and classified in the studies. Illustrating this point, one journal article we came across graded incontinence by the "degree of bother" it caused. "Bother" really isn't much of a scientific term. Intuitively, it is hard to find reasons why SI prevalence would differ greatly between Europe, the US and Australia, given the roughly similar population profiles. Where incontinence is found may differ depending on local trends in caring for those with incontinence, but, still, the overall rate seems unlikely to be hugely different.

Because medicine/aged care/disability care is fairly socialised in Australia, the government and associated bodies have access to relatively solid data regarding incontinence and other health issues. The same is also probably true for many European countries where healthcare is similarly or more socialised than it is here. The structure of the US healthcare system generally does not lend itself to the collection of population-based healthcare data, in general, with records stored in public and private institutions and access to those records limited.

- **Australian SI statistics are sound and informative**

Since the Australian statistics are likely to be sound, there doesn't intuitively seem to be a reason incontinence rates should vary between jurisdictions and, importantly, that Simavita now has products targeting the incontinence spectrum, we have chosen to simply apply the Australian statistics across the board. It should be recognised, though, that the prevalence of incontinence in Europe and the US may be considerably higher (or lower) than we have accounted for. Additionally, where an incontinent person is located may influence the likelihood of them having an assessment, such that even though incontinence rates may be the same across the regions, the number of assessments done per-year may differ.

AssessPLUS: Sales, Marketing and Distribution

Prior to the engagement of new management, Simavita was largely a direct sales focused, employee heavy company, with ambitious plans for SIM™. Unfortunately, market uptake and expectations failed to meet. New management set about putting the company in a position to maximise market exposure of its products, while minimising the number of touch points the company had to the market. That is, they set the company up to work much more through a distributor model, rather than a direct sales model.

- **Leverage is a key of the new business model**

This shift in the sales and marketing strategy wasn't entirely new to the company. As Simavita was becoming a listed company, it had signed an exclusive agreement with Medline Industries, Inc to act as its exclusive distributor of SIM™. In defence of the arrangement, Medline is the largest manufacturer and distributor of incontinence products in the US and, intuitively, seemed an excellent partner for Simavita. In the end, though, it appears there was disconnect between SIM™ and Medline. Medline manufactures, sells and ships bulk orders constantly, with little need for ongoing "support". The nature of SIM™, however, requires comparatively small orders, a more involved sales process and the need for ongoing support. When this became clear, Medline agreed to act as a non-exclusive distributor and Simavita began to handle more of the US sales effort.

- **Medline was a learning experience in determining who the best distributors might be**

Medline is likely to have a continuing role in Simavita's business, but, the relationship needs to be re-thought, rather than Medline continuing to do with SIM™ what it does with all of its other products.

The difference between the Medline distributorship and the ones Simavita are actively negotiating, is that Simavita will be working with distributors that more closely match the sales and marketing needs required of SIM™ and AssessPLUS. These types of distributors are termed "break-pack" suppliers and typically operate between a Medline and smaller users of the products. The break-pack suppliers essentially receives large orders and break them up for distribution to individual users or smaller groups of users.

- **Break-pack suppliers are central to the new strategy, with Simavita's products fitting well with them**

Simavita will still ultimately need to market to the end users, but with AssessPLUS, this becomes a much easier sale, because the level of commitment required to purchase the product is much lower than for SIM™ and there is likely to be little in terms of ongoing support required. For an ACF to begin using AssessPLUS, all that is really required is a small, non-capital equipment, outlay and a read through of the product instructions. There is no installation on the facilities computer network or need for extended training or, really, even a great need to discuss how use of the product will be implemented across the ACF. Rather than using paper and a pen, and frequently checking the continence of the resident manually during an assessment, the carer just grabs a sensor pod, the appropriate pad and helps the person having the assessment put them on. The carer can then go about their normal routine, knowing the pod will detect and record any continence episodes, which can later be married up with any notes made by/or about the person having the assessment.

- **AssessPLUS should be much easier for ACFs to adopt than SIM™**

In terms of addressing continence in the community, Simavita intends to promote and train organisations that provide home care in Australia. Targets are likely to include Silverchain, RDNS and Blue Care. The nurses, having identified persons under their care

who would benefit from an assessment, would order the required products from the break-pack supplier and conduct the assessment. The person having the assessment pays the home care provider for it, and, in turn, the home care provider pays the break-pack supplier for the products used in the assessment. The person having the assessment may pay out of their own pocket, but would be more likely to use the funding they have received from the government through one of the various programs available. The system is designed to provide a financial pay-off to each participant in the chain. In terms of the patient, this is in addition to the quality of life improvement they have through better management of their continence. From each participant's view, they receive:

- Person being assessed: Better quality of life and long term savings through the optimisation of their ongoing continence aids requirements
- Home care provider/nurse: Ability to charge a higher price for a continence assessment that requires less effort on their behalf to conduct compared to a paper-based assessment. It can also provide a differentiator relative to other home care providers.
- Break-pack supplier: Another product they can claim a margin on when they ship, while also broadening their product offering and providing a differentiator relative to other break-pack providers.

➢ **All participants in the sales chain win**

AssessPLUS – Europe & US

The plans for marketing AssessPLUS in Europe and the US are similar to those to be used in Australia, although regional differences will need to be taken into account.

The US continence market is different to those in Australia and Europe, largely as a result of the US being a user pays/insurance pays system, where in Australia and Europe things much more socialised, with governments footing a large part of the bill. Government involvement in a healthcare sector tends to bring a uniformity of process, such that cost can be predicted and controlled, and expenditure justified. In that way, Europe is likely to be friendlier, at least, initially to Simavita, as their products can become part of the process, in terms of reducing costs and justifying expenditure on a needs basis, than the US.

➢ **The incontinence Markets of Europe and Australia are similar**

This is reflected by Simavita's activity in Europe, where distributors have been appointed for the Netherlands and Sweden (OneMed Group Oy), and sales are being expanded in Denmark. Sales activity is also occurring in Spain, with the UK not too far behind. Going forward, we expect to see more distributors being appointed and, as in Australia, we see this being done in a manner which maximises market exposure, while using carefully selected groups to provide as much leverage as possible. The differing healthcare systems between European countries will mean some variation will exist within the strategies employed there, nonetheless, the over-arching strategy used for Australia looks likely to suit Europe, as well.

➢ **Strong European activity**

As mentioned earlier, the US is different and it looks like Simavita will hand-off its products to a distributor in that region and allow the distributor to develop the strategy. Ultimately, we would expect Simavita to keep its own foot-print in the US as small as possible, while devoting its energy to finding the most appropriate partner(s) to take the products forward there.

Competition & Intellectual Property

SIM™ and AssessPLUS remain the only real players in the continence assessment space worldwide, such that the only real competition they are likely to see in the near future is that from traditional paper-based manual assessments. This is probably the lowest form of competition a company can have, other than none and, provided Simavita and their products deliver a better cost/outcome proposition, as they appear to do, converting customers shouldn't prove too difficult.

SCA Hygiene Products GmbH has been developing a product called the Tena Identifi for use in continence assessments. The product has been around for a while, but it is difficult to tell where exactly the company is at with the product. The company

certainly doesn't look like it is pushing the product very hard. We do note that the company intended to support a clinical trial with the product back in May 2015, but also note that as of the writing of this report, the trial has not commenced.

There are other "alert" type products on the market, however, they are niche products and too expensive for everyday general use.

- **Simavita faces little to no competition, existing or from innovators**

Simavita has been very good at protecting its intellectual property (IP), both in terms of protecting its products and allowing the development of additional products, but also preventing others from innovating around them. The Company has 12 patent families, comprising 46 granted international patents and 35 additional patents which have been filed or are in progress. The company has IP within the wearable sensors, algorithms, incontinence management and manufacturing areas.

- **IP has been a strength of Simavita's**

Key Personnel

Simavita has a lean board comprising high profile directors with a good mix of skills and management with a wide array of specific skills around product development through to sales and marketing expertise in the adult continence space.

Key personnel are as follows (Source: Simavita website):

Mr Michael Spooner - Chairman

Mr Michael Spooner was appointed as Chairman of Simavita in May 2016. Mr Spooner also serves on the Board of Directors of Mesoblast since 2004. During this period he has filled various roles including as Executive Chairman from the date of the ASX public listing in 2004 until 2007. He is currently the Chairman of the Audit and Risk Committee as well as a member of the Remuneration Committee.

Over the past several years Mr Spooner has served on the Board of Directors in various capacities at several Australian and international biotechnology companies, including BiVacor Pty Ltd (2009-2013), Advanced Surgical Design & Manufacture Limited (2010-2011), Peplin, Inc. (2004-2009), Hawaii Biotech, Inc. (2010-2012), Hunter Immunology Limited (2007-2008), and as managing director of Ventracor Limited (2001-2003).

Prior to returning to Australia in 2001, he spent much of his career internationally where he served in various roles including as a partner to PA Consulting Group, a United Kingdom-based management consultancy and a Principal Partner and Director of Consulting Services with PricewaterhouseCoopers (Coopers & Lybrand) in Hong Kong.

In addition, Mr Spooner has owned and operated several international companies providing services and has consulted to a number of American and Asian public companies.

Dr Gary Pace - Director

Dr Pace has more than 40 years of experience in the development and commercialization of advanced life sciences and related technologies, spanning biotechnology, pharmaceuticals, medical devices, and food industries. He is a serial entrepreneur and has held senior positions in small to and large-scale life sciences ventures and companies in Australia, the USA and Europe. Dr Pace has contributed to the development of the biotechnology industry through honorary university appointments and industry and government committees.

Dr Pace is currently a Director of three public companies ResMed (NYSE, RMD); Pacira Pharmaceuticals Inc (NASDAQ: PCRX); Transition Therapeutics Inc. (NASDAQ: TTHI) and Antisense Therapeutics (ASX: ANP) as well as several private companies.

Dr Pace holds a B.Sc. (Hons I) from the University of New South Wales and a Ph.D. from the Massachusetts Institute of Technology. Also he has held visiting academic positions at the Massachusetts Institute of Technology and the University of Queensland. Dr Pace is an elected Fellow of the Australian Academy of Technological Sciences and Engineering.

Mr Warren Bingham - Director

Mr Warren Bingham was appointed a Director of the Company in 2015. Warren has worked extensively in the field of medical devices and technologies, with expertise in domestic and international markets, health economics, regulatory and clinical affairs and business development.

Simavita Limited

Simplifying & Refocussing within the Continence Market

Warren serves as Chair for the AusMedtech National Advisory Group and Health Economics Expert Panel as well as the MedTech/Lifesciences Subcommittee of the Australia/Israel Chamber of Commerce and Israel Trade Commission.

In addition to these roles, Warren is also a strategic advisor to the Board of the Gastroenterological Nurse College of Australia (GENCA), a Mentor at the NSW Enterprise Workshop, an Ambassador and strategic advisor to a NFP Organisation Noble Endeavours, and a past Ambassador for the Vinnies CEO Sleepout. During his time at Given Imaging, Mr Bingham served on the global management team which drove the company's progression from a small, privately held, research-stage company with no revenue to a multinational, publicly traded company with revenues exceeding USD$200 million. In February 2014, Covidien plc. acquired Given Imaging Ltd. for approximately USD$1 billion.

Warren currently provides consulting and advisory services to the life science, medtech and biotech sectors and has qualifications in Business Administration and post graduate qualifications in Management. He is also a graduate member of the Australian Institute of Company Directors.

Ms Peta Jurd – Chief Commercial Officer

Ms Peta Jurd was appointed Chief Commercial Officer in 2015 and Company Secretary of the Company in 2016. Previously Peta was the Head of Hills Health Solutions at Hills Limited, responsible for leading the health division selling health technology into hospitals and aged care facilities in Australia and New Zealand. Peta has a broad background and is experienced in managing governance areas such as compliance, risk management, human resources, safety and legal services.

Peta has qualifications in Commerce and Law and previously held senior management positions at Telstra, Veolia Environmental Services (Aust) and Mayne Nickless Limited, giving her extensive experience running commercial and operational business units. She is currently a Director of the National Breast Cancer Foundation and has previous Board experience with a not-for-profit organisation and an industry superannuation fund.

Mr Peter Curran – Chief Technology Officer

Peter is the Chief Technology Officer of Simavita and has been with the Company since May 2009. He has over 30 years' experience in engineering, operations, and commercial management and has been active in consumer, industrial and defence markets across power, telecommunications, computer technology, gaming, audio, and medical device products and services.

Peter spent his early working career as an electronics design engineer of industrial power equipment for Lincoln Electric before moving into senior and principal engineering roles in defence with GEC Marconi Systems and Stanilite and then into executive management positions in manufacturing, operations and commercial management within the electronics industry.

Peter holds qualifications in electrical engineering, business administration and has accreditations in business process improvement.

Simavita Limited

Simplifying & Refocussing within the Continence Market

Disclaimer

In accordance with section 949A of the Corporations Act 2001, any recipient of the information contained in this document should note that information is general advice in respect of a financial product and not personal advice. Accordingly the recipient should note that: (a) the advice has been prepared without taking into account the recipient's objectives, financial situations or needs; and (b) because of that, the recipient should, before acting on the advice consider the appropriateness of the advice, having regard to the recipient's objectives, financial situation and needs.

Although Lodge Partners Pty Ltd ("Lodge") consider the advice and information contained in the document is accurate and reliable, Lodge has not independently verified information contained in the document which is derived from publicly available sources. Lodge assumes no responsibility for updating any advice or recommendation contained in this document or for correcting any error or admission which may become apparent after the document has been issued. Lodge does not give any warranty as to the accuracy, reliability or completeness of advice or information which is contained in this document. Except in so far as liability under any statute cannot be excluded, Lodge, its employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Lodge, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Act 2001 may receive commissions from transactions involving financial products referred to in this document and may hold interests in financial products referred to in this document.

General Securities Advice Warning

This report is intended to provide general securities advice. In preparing this advice, Lodge did not take into account the investment objectives, the financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances.

Explanation of Lodge Partners Recommendation System:

Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I, Marc Sinatra, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

Contact Lodge Partners

Lodge Partners Pty Ltd
ABN: 25 053 432 769 AFSL: 246271
Level 6, 90 Collins Street, Melbourne VIC 3000
T +61 3 9200 7000 F +61 3 9200 7077
lodgepartners.com.au