4Dmedical

The next dimension

30 September 2024

4DX has announced the signing of the Philips (PHG.NYSE) reseller agreement, with 4DMedical and Imbio products now set for US distribution via the Philips' product catalogue. The deal represents the culmination of a (circa) year long process with Philips (MoU Nov-23, teaming agreement Jan-24) and underpins the next phase of 4DX's commercialisation. In this note we revisit the US opportunity, highlighting why we remain positive on 4DX's TAM, value proposition and unit economics. While we expect US volumes to build medium-term, this partnership also increases the likelihood of a more significant, VA-wide screening program (underpinned by a ~6m patient population, US$280b of PACT Act funding). Maintain Spec Buy.

4DX-Philips formalise distribution agreement

Philips has signed a 5-year agreement with 4DX, giving it exclusive distribution rights to the product portfolio (i.e. XV LVAS, CT LVAS and Imbio – ex CT VQ) in the US for Government customers (inc VA and DoD) and non-exclusive rights with all other US customers. Philips will earn reseller margins of 20-35% on end-customer sales with minimum sales targets set to maintain exclusivity rights (not disclosed). With core CT LVAS scans carrying US$650 CMS reimbursement, we estimate US$350 net pricing to 4DX with providers capturing US$150 and Philips US$150.

Deal augments 4DX's pathway to material revenue generation

We estimate ~80m respiratory diagnostics procedures pa in the US, with OMLe taking the ~12m thoracic CTs a proxy for 4DX's serviceable market (i.e. US$7.8b). Assuming 2% penetration and overlaying 10% of the burn-pit population, we calculate an initial US revenue opportunity of ~US$300m (>A$400m vs OMLe FY26E US revenue of A$35m).

Valuation: TP (DCF) $1.10 (was $1.05), Maintain Spec Buy

Our TP lifts slightly on roll-forward and minor changes to outer-year OMLe.

Key Financials

Year-end June ($)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue ($m)	0.7	3.8	18.2	53.3	93.9
EBITDA ($m)	(28.9)	(30.5)	(23.5)	(1.4)	17.3
EBIT ($m)	(31.4)	(34.6)	(28.6)	(7.6)	9.8
Reported NPAT ($m)	(31.4)	(36.2)	(27.9)	(7.3)	7.5
Reported EPS (c)	(9.6)	(8.0)	(5.6)	(1.4)	1.5
Normalised NPAT ($m)	(31.4)	(33.7)	(27.9)	(7.3)	7.5
Normalised EPS (c)	(9.6)	(7.5)	(5.6)	(1.4)	1.5
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
EV/EBITDA (X)	-	-	-	-	14.7
Normalised P/E (x)	-	-	-	-	42.3
Normalised ROE (%)	-	-	-	-	16.3

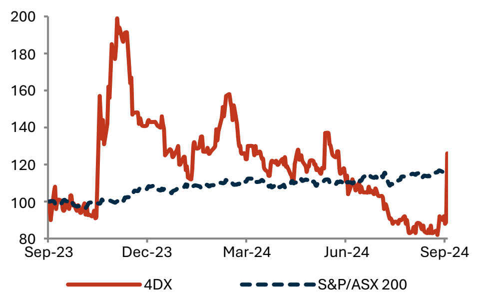
Source: OML, Iress, 4Dmedical

Last Price
A$0.63
Target Price
A$1.10 (Previously A$1.05)
Recommendation
Speculative Buy
Risk
Higher

Health Care Technology

ASX Code	4DX
52 Week Range ($)	0.41 - 1.00
Market Cap ($m)	260.9
Shares Outstanding (m)	414.1
Av Daily Turnover ($m)	4.7
3 Month Total Return (%)	10.5
12 Month Total Return (%)	26.0
Benchmark 12 Month Return (%)	16.8
NTA FY25E (¢ per share)	-4.8
Net Cash FY25E ($m)	12.7

Price performance



Source: FactSet

Consensus Earnings

	FY25E	FY26E
NPAT (C) ($m)	(31.9)	(12.2)
NPAT (OM) ($m)	(27.9)	(7.3)
EPS (C) (c)	(7.0)	(2.8)
EPS (OM) (c)	(5.6)	(1.4)

Source: OML, Iress, 4Dmedical

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Philips Reseller a done deal – key takeaways

Reseller agreement in detail

- In Jan-24, 4DX announced it had signed a Teaming Agreement with Philips to establish a strategic collaboration to advance solutions to evaluate Veterans with deployment-related respiratory disease (DRRD) and other respiratory conditions as part of a broader lung screening initiative. Since then, 4DX and Philips teams have been collaborating to develop solutions for toxic exposure and lung screening using 4DMedical software and Philips fluoroscopy and CT systems;
- In parallel, the parties have been working towards this reseller agreement under which the 4DMedical and Imbio portfolios have been added to Philips' product catalogue and will be offered as a third-party solution to its U.S. customer base;
- **The 5-year agreement will give Philips exclusive distribution rights to the 4DMedical suite of products with its U.S. government customers (including the VA and DoD) and nonexclusive rights with all other U.S. commercial customers;**
- Initial transfer pricing for all products has been established, **whereby Philips will earn margins between 20% and 35% (varying by product) on end-customer sales** of XV LVAS, CT LVAS and Imbio products; and,
- For Philips to maintain exclusive rights to U.S. government customers, the agreement stipulates minimum thresholds for annual sales targets, across the 5-year term.

Figure 1: CT LVAS scan net pricing – worked example

CT LVAS scan	US$	OML comment
Scan reimbursement	$650	CMS rate
Provider margin	$150	
Scan price	$500	
Philips margin	$150	30% reseller margin
Net 4DX price	**$350**	

Source: Company data, OMLe

Partnership delivers potential for a commercialisation step-change

- The partnership will allow 4DX to leverage Philips' long-established and significant existing commercial partnerships in the US. These existing relationships are particularly strong within the VA and DoD, where Philips has been providing solutions for over 45 years (with 50% of VA clinics currently use Philips imaging solutions);
- 4DX sees the opportunities within the VA as twofold:
    1. 4DX and Philips will work together to support the need for scalable, non-invasive lung screening in support of the PACT Act. The PACT Act represents a US$280b commitment over 10 years, covering numerous respiratory illnesses as presumptive conditions, providing healthcare eligibility to 6m Veterans exposed to airborne hazards while on deployment. XV LVAS and LDAf are currently two leading non-invasive technologies capable of assessing DRRD;
    2. 4DX's comprehensive portfolio of products is well placed to provide actionable insights to frontline VA physicians treating patients with chronic lung disease, whilst also serving all physicians triaging respiratory conditions across the entire Veteran population. **This is particularly relevant when considering that Veterans have three times the rates of chronic lung diseases such as COPD**

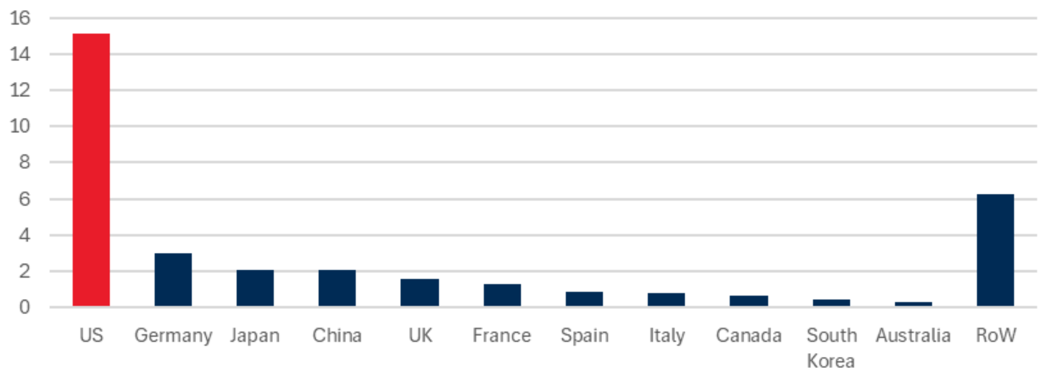
compared to the general population. It is also worth noting that the VA annual healthcare budget is more than US$330 billion per annum.

Breaking down the US opportunity

The US represents the largest respiratory diagnostics TAM in the world

The US is the largest respiratory diagnostics market in the world, with ~80 million procedures pa generating ~US$15b of expenditure (roughly 43% of global spend).

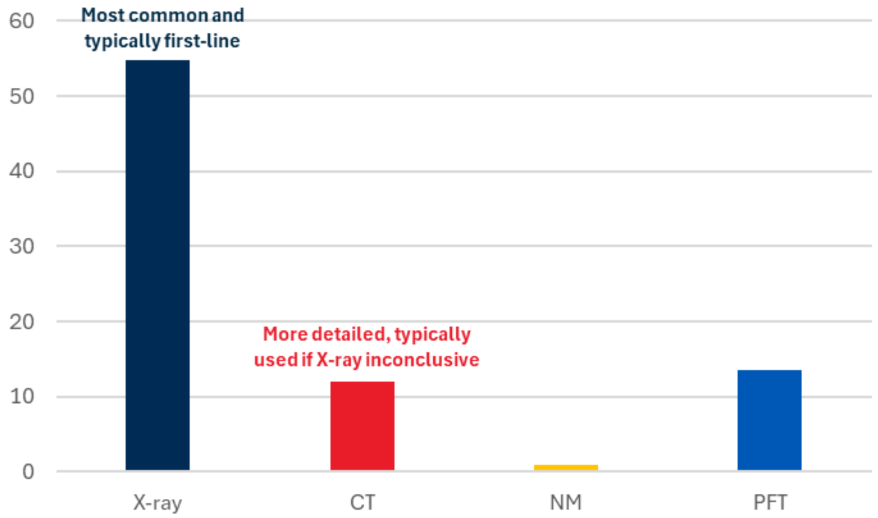
Figure 2: We estimate the global respiratory diagnostics TAM is ~$35b



Source: Company data, Frost & Sullivan, OMLe

We estimate ~80m respiratory diagnostics procedures pa in the US, with OMLe taking the ~12m thoracic CTs a proxy for 4DX's serviceable market (i.e. US$7.8b value at the US$650 CMS reimbursement rate).

Figure 3: US respiratory testing volumes (m)



Source: Company data, Frost & Sullivan, OMLe

While 4DX's TAM is clearly significant, below we drill-down to a more realistic medium-term revenue opportunity assuming:

- 2% penetration of the broader US market (thoracic CT vols an approximation of more complex patient episodes); and,
- 10% of the DRRD/ burn-pit population ~6m (initial screenings and follow-up tests). We would expect VA testing volumes to exceed this if a system-wide screening program is established.

On this basis, we calculate an initial US revenue opportunity of ~US$300m (>A$400m vs OMLe FY26E US revenue of A$35m).

Figure 4: Our assessment of 4DX's medium-term US revenue opportunity

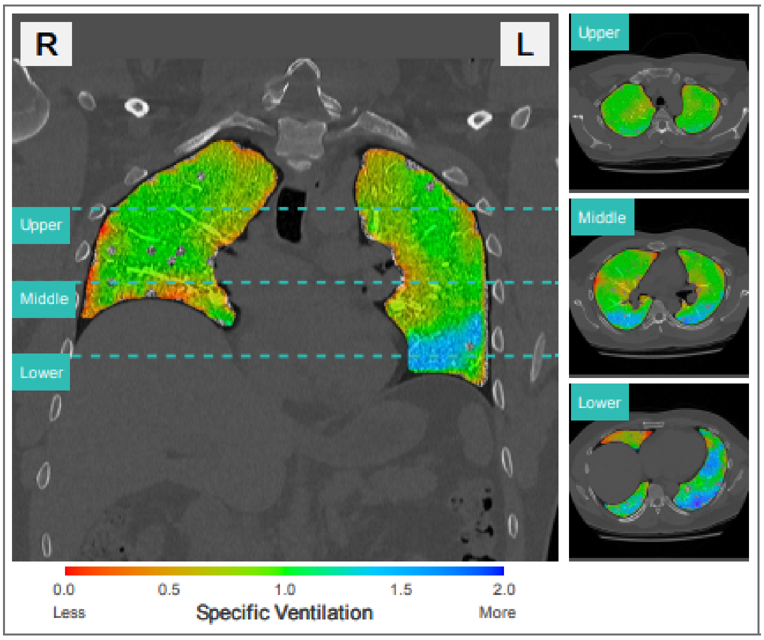
4DX revenue opportunity	Units	
Thoracic CTs	m	12.0
Penetration	%	2%
Volume opportunity	m	0.2
DRRD population	m	6.0
Penetration	%	10%
Volume opportunity	m	0.6
Total scans	m	0.8
Net pricing	US$	350
Revenue opportunity	**US$m**	**294**
Revenue opportunity	A$m	420

Source: OMLe

Why XV Technology – understanding the value proposition…

At the core of 4DX's product suite is its flagship imaging platform - XV Technology (X-ray Velocimetry). The suite includes software products CT LVAS and XV LVAS (Lung Ventilation Analysis Software) that enable breakthrough levels of non-invasive, quantitative lung function analysis. The underlying technology leverages patented mathematical models and algorithms to convert diagnostic images (e.g. CTs, X-rays) into quantitative data, delivering a four-dimensional (4D) lung imaging solution. XV Technology operates through a cloud-based SaaS platform that integrates directly with existing imaging hardware (alleviating upfront capex for hospitals/clinics).

Figure 5: CT LVAS Ventilation Report



Source: 4DX

XV Technology lets physicians understand regional airflow, allowing them to diagnose respiratory disorders earlier and with greater sensitivity. Diagnosis and treatment of respiratory diseases typically involves examination by a doctor using traditional imaging modalities (i.e. X-ray, CT or nuclear medicine) or a pulmonary function test (PFT). The majority of respiratory tests globally are chest X-rays (~67%), followed by PFTs, chest CTs and nuclear medicine scans.

Compared to traditional/incumbent modalities, XV Technology offers the following advantages:

- New medical insights through spirometry at a regional level;
- Improved safety with a similar radiation dose vs X-ray;
- Superior imaging results with high-detail 4D resolution;
- Improved clinical outcomes and experience for patients;
- Faster and more efficient testing; and,
- Lower cost vs majority of incumbent modalities.

The higher levels of detail and accuracy offered by XV Technology means doctors are better placed to manage patients with complex conditions (usually presenting with unexplained dyspnea – i.e. shortness of breath). The need to diagnose, triage and treat patients quickly and effectively is significant given the global burden of respiratory disease.

Spotlight on VA and Burn Pits

The PACT Act was signed on 10-Aug-22 and provides US$280b in additional healthcare benefits over ten years for veterans exposed to burn pits and other harmful toxins. It requires the Veterans Health Administration (VHA) to provide toxic exposure screening to each of the >9m veterans enrolled in the VHA program.

The US Military built burn pits close to bases across the Middle East to dispose of waste (both hazardous and non-hazardous). A range of materials (including munitions, chemicals, plastics and medical waste) were burned in pits using jet fuel as the accelerant. 4DX estimates that ~6m veterans have been exposed to airborne hazards while on deployment. After exposure to burn pit environments, many previously combat-ready troops returned from deployment with disabling respiratory symptoms (i.e. shortness of breath, coughing), that prevented them from performing basic physical activities. A significant portion of these troops developed constrictive bronchiolitis (CB - a narrowing of the smallest and deepest airways of the lungs). Diagnosing these veterans has been difficult. Historically, a highly invasive surgical lung biopsy has been the only way to detect CB, with conventional lung imaging and PFTs returning normal results in this population.

The Vanderbilt clinical trial enrolled: 1) group of veterans who had undergone surgical lung biopsy; and, 2) a control group. The data from the trial showed that XV Technology confirmed the diagnosis of CB with <0.001% uncertainty, setting it well apart from conventional diagnostic methods and as a dramatically safer and less expensive alternative to surgical biopsy.

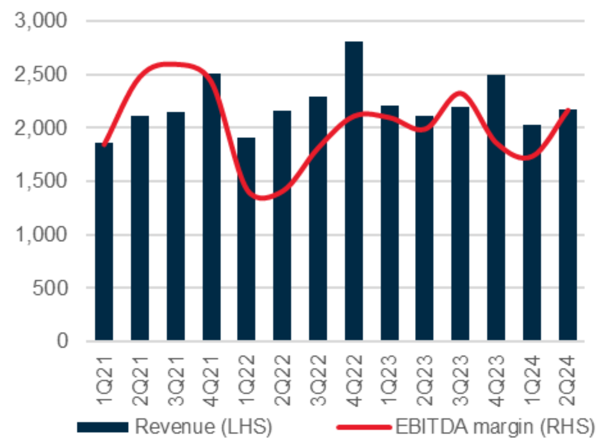
Why Philips?

Philips has long-run and significant partnerships with both the VA and the Department of Defense going back >45 years, deploying ~35% of the critical care information systems across the VA, and having Philips imaging solutions in ~50% of VA hospitals.

Philips is a global leader in health care with >€18b in sales (LTM) and ~70k staff globally. The company offers a wide range of products and services, including advanced imaging systems, patient monitoring solutions and healthcare informatics (with its largest market being North America at ~42% of sales). Through a combined offering with 4DX, Philips is targeting market share growth across capital equipment sales and service offerings (plus attachment through its PACS portfolio), as the company looks to more comprehensively serve the VA. We note that on an LTM basis, Philips' Diagnosis & Treatment Division generated €8.9b in sales and €1.2b in

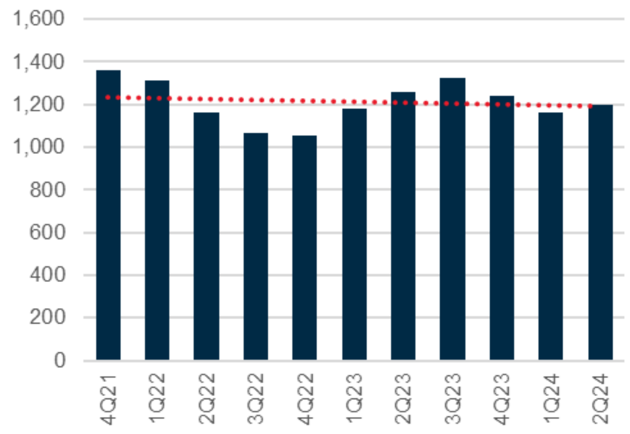
EBITDA (noting moving annual EBITDA has been on a downward trajectory). This highlights both the scale of this business and the impetus for Philips to seek additional competitive edges to drive higher growth and returns.

Figure 6: PHG Diagnosis & Treatment division (€m)



Source: Company data, OML

Figure 7: PHG D&T division MAT EBITDA (€m)



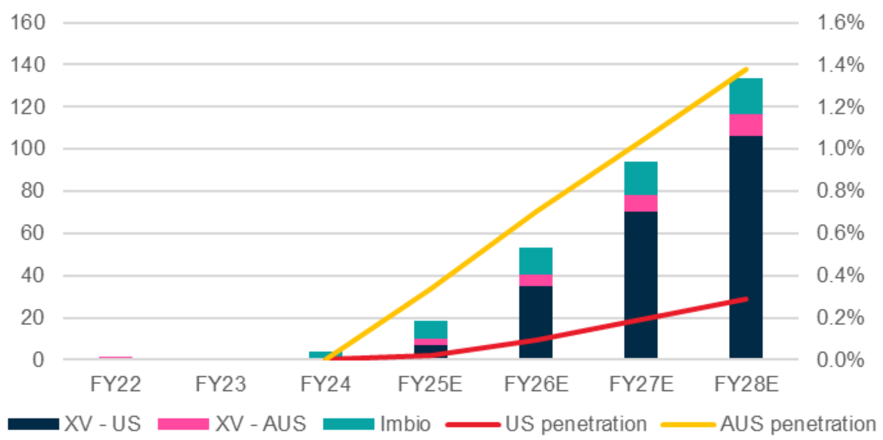
Source: Company data, OML

Valuation and forecast changes

We value 4DX at $1.10ps (was $1.05ps) using a DCF methodology (WACC 11.2%, TGR 3%) and maintain a Speculative Buy rating. Our forecasts remain broadly unchanged (minor outer-year tweaks) with Philips deal completion already assumed in 1Q25. We assign a Spec Buy recommendation as we expect the stock's total return to >20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss (per Ords recommendation definitions). Our DCF is driven by:

- FY25E revenue of A$18m, increasing to A$53m in FY26E with a 47% 3yr revenue CAGR thereafter. Longer-term we model 10% revenue growth noting our TAM penetration rates remain modest even in outer-years (i.e. US penetration of 0.6% in FY30E);
- Long-term GMs of 90% and EBITDA margins of 39-40%. Minimal levels of working capital and capex (3% of sales) long-term per 4DX's capital light business model; and,
- Our WACC of 11.2% in underpinned by: 1) cost of equity 12.8%; 2) risk free rate of 4%; and, 3) target gearing of 20%. Our terminal growth rate for 4DX is 3.0%.

Figure 8: Revenue forecasts (A$m) – Medium-term OMLe unchanged



Source: OMLe

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Speculative Buy

PROFIT & LOSS (A$m)	2023A	2024A	2025E	2026E	2027E
Revenue	0.7	3.8	18.2	53.3	93.9
Other income	-	-	-	-	-
Operating costs	(29.6)	(34.3)	(41.8)	(54.7)	(76.6)
Operating EBITDA	**(28.9)**	**(30.5)**	**(23.5)**	**(1.4)**	**17.3**
D&A	(2.6)	(4.1)	(5.1)	(6.2)	(7.5)
Non-operating items	-	-	-	-	-
EBIT	**(31.4)**	**(34.6)**	**(28.6)**	**(7.6)**	**9.8**
Net interest	0.3	1.0	0.7	0.3	0.3
Pre-tax profit	**(31.1)**	**(33.6)**	**(27.9)**	**(7.3)**	**10.1**
Net tax (expense) / benefit	(0.3)	(0.0)	-	-	(2.5)
Signfiicant items/Adj.	-	(2.5)	-	-	-
Associate NPAT	-	-	-	-	-
Normalised NPAT	**(31.4)**	**(33.7)**	**(27.9)**	**(7.3)**	**7.5**
Reported NPAT	**(31.4)**	**(36.2)**	**(27.9)**	**(7.3)**	**7.5**
Normalised dil. EPS (cps)	(9.6)	(7.5)	(5.6)	(1.4)	1.5
Reported EPS (cps)	(9.6)	(8.0)	(5.6)	(1.4)	1.5
Effective tax rate (%)	(1.0)	(0.1)	-	-	25.0
DPS (cps)	-	-	-	-	-
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	326.8	450.7	494.4	505.7	505.7

CASH FLOW (A$m)	2023A	2024A	2025E	2026E	2027E
EBITDA incl. adjustments	(66.0)	(74.6)	(46.1)	(1.8)	35.6
Change in working capital	27.9	31.3	22.7	1.3	(26.3)
Net Interest (paid)/received	15.4	12.4	0.7	0.3	0.3
Income tax paid	-	-	-	-	(2.5)
Other operating items	-	-	-	-	-
Operating Cash Flow	**(22.7)**	**(30.9)**	**(22.6)**	**(0.2)**	**7.1**
Capex	(0.7)	(1.2)	(0.9)	(1.6)	(2.8)
Acquisitions	-	(38.9)	-	-	-
Other investing items	(0.9)	-	-	-	-
Investing Cash Flow	**(1.6)**	**(40.0)**	**(0.9)**	**(1.6)**	**(2.8)**
Inc/(Dec) in equity	45.0	35.0	6.8	-	-
Inc/(Dec) in borrowings	-	-	0.1	-	-
Dividends paid	-	-	-	-	-
Other financing items	(2.2)	(3.1)	(1.0)	(1.0)	(1.0)
Financing Cash Flow	**42.7**	**31.9**	**5.8**	**(1.0)**	**(1.0)**
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	18.5	(39.0)	(17.7)	(2.8)	3.2

BALANCE SHEET (A$m)	2023A	2024A	2025E	2026E	2027E
Cash	69.6	30.6	12.9	10.1	13.3
Receivables	0.8	1.3	5.8	13.9	22.5
Inventory	0.7	1.0	1.0	1.1	1.5
Other current assets	7.5	6.2	6.2	6.2	6.2
PP & E	5.5	4.9	3.5	2.1	1.4
Investments	-	-	-	-	-
Financial Assets	-	-	-	-	-
Intangibles	5.1	72.2	69.5	66.2	62.3
Other non-current assets	3.8	3.9	3.9	3.9	3.9
Total Assets	**92.9**	**120.0**	**102.7**	**103.5**	**111.1**
Short term debt	0.9	-	-	-	-
Payables	12.8	5.1	8.8	17.0	17.0
Other current liabilities	3.3	16.8	16.8	16.8	16.8
Long term debt	4.2	0.1	0.2	0.2	0.2
Other non-current liabilities	0.2	27.1	27.1	27.1	27.1
Total Liabilities	**21.5**	**49.1**	**52.9**	**61.1**	**61.1**
Total Equity	**71.5**	**70.9**	**49.8**	**42.5**	**50.0**
Net debt (cash)	(64.4)	(30.5)	(12.7)	(9.9)	(13.1)

DIVISIONS	2023A	2024A	2025E	2026E	2027E
Revenue (A$m)					
LVAS revenue	0.7	1.1	9.7	40.3	78.3
Imbio revenue	-	2.7	8.6	13.1	15.6
Other income	13.2	11.0	8.0	6.0	6.0
Total Revenue	**13.9**	**14.7**	**26.2**	**59.3**	**99.9**

KEY METRICS (%)	2023A	2024A	2025E	2026E	2027E
Revenue growth	(31.8)	421.6	385.9	192.6	76.2
EBITDA margin	-	-	-	-	18.4
OCF /EBITDA	131.9	141.7	99.1	32.9	53.8
EBIT margin	-	-	-	-	10.4
Return on assets	-	-	-	-	6.8
Return on equity	-	-	-	-	16.3

VALUATION RATIOS (x)	2023A	2024A	2025E	2026E	2027E
Reported P/E	-	-	-	-	42.3
Normalised P/E	-	-	-	-	42.3
Price To Free Cash Flow	-	-	-	-	98.8
Price To NTA	2.8	-	-	-	-
EV / EBITDA	-	-	-	-	14.7
EV / EBIT	-	-	-	-	26.0

LEVERAGE	2023A	2024A	2025E	2026E	2027E
ND / (ND + Equity) (%)	(917.6)	(75.5)	(34.2)	(30.4)	(35.6)
Net Debt / EBITDA (%)	223.3	99.9	53.9	704.9	(75.9)
EBIT Interest Cover (x)	100.2	35.6	41.7	26.4	-
EBITDA Interest Cover (x)	92.0	31.4	34.3	4.9	-

SUBSTANTIAL HOLDERS	m	%
Velocimetry Consulting Pty Ltd	65.7	15.9%
Norges Bank	8.7	2.1%
Ryder Inn Fund LP	6.3	1.5%

VALUATION	
Cost of Equity (%)	12.8
Cost of debt (after tax) (%)	6.5
WACC (%)	**11.2**
Target Price Method	DCF
Target Price ($)	1.10
Valuation disc. / (prem.) to share price (%)	74.6

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Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.	
SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.