

GLOBAL HEALTH (GLH)

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SHARE PRICE: \$0.24
 MKT CAP: \$8.2m / EV: \$7.7m
 NET CASH: \$0.5m
 NO. SHARES: 32.66m
 ETHICAL/SRI: YES
 MAJOR SHAREHOLDERS:
 Management 59%, National Nominees
 5.5%
 YIELD: 0%
 NTA: 11.1c

RISING STAR BUSINESS CASE

Global Health is a high margin / high ROCE recurring income business with a software portfolio well suited for the evolving demands of global hospital and community healthcare providers. The company is transitioning from its position as an Australian specialist player towards a SaaS/consumer-focused international model. The long term value creation potential is significant with numerous business catalysts coming in the next 2-3 years.



YEAR TO JUNE	2014	2015	2016E	2017E	2018E
REV (\$M)	5.3	4.5	4.5	5.5	7.5
EBITDA (\$M)	1.7	1.2	1.1	1.6	2.3
NET PROFIT (\$M)	1.4	1.1	1.0	1.3	1.9
EPS (c)	4.42	3.24	3.06	3.98	5.74
ROCE (%)	50.0%	28.9%	23.3%	27.1%	35.8%
EV/SALES (x)	1.5	1.7	1.7	1.4	1.0
EV/EBITDA (x)	4.5	6.4	7.0	4.8	3.3
P/E (x)	5.5	7.4	8.2	6.2	4.3

BUSINESS ACTIVITIES

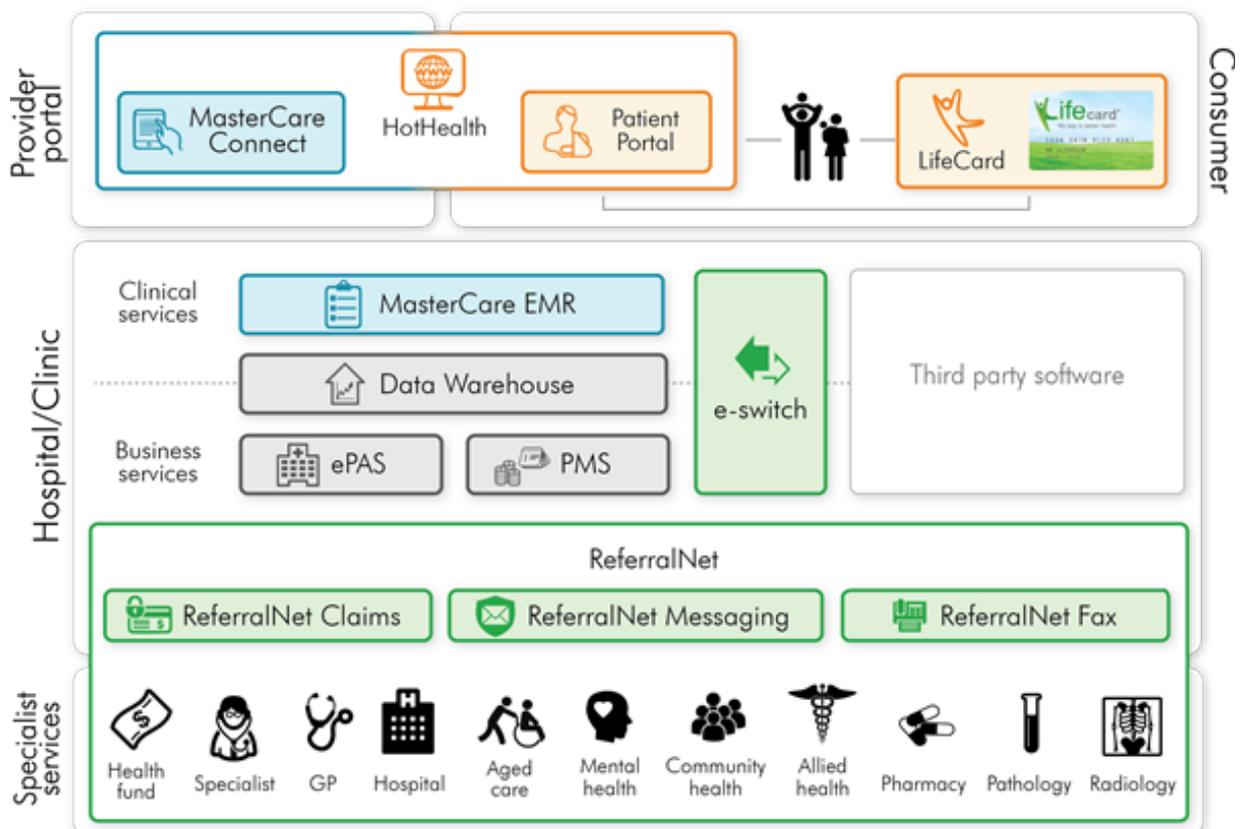
Global Health develops healthcare software which supports clinical, business and operational functions. The company's software enhances patient care, improves efficiency, reduces patient risk, enables secure sharing of patient information, and ultimately improves margins.

Global Health has 3 main product lines:

1. **ReferralNet** - a cloud based system for exchanging messages between healthcare providers and their colleagues, funders and patients.
2. **MasterCare** - a set of applications to support the business and clinical operations of hospitals and community health to collect, manage and access clinical and patient information.
3. **LifeCard** - a set of applications for consumers to engage with their healthcare providers and keep important medical information in one secure location.

The company has around a **1% share of the entire Australian healthcare IT market** and a much higher share within the segments it targets such as the mental health, hospital and secure messaging markets. 100% of revenues were derived from Australia in 2014/15, and 80% was recurring income. The company has 2000 community customers and 50 hospital customers, and employs 35 staff in Australia. R&D is running at around 20% of revenue with a focus on new mobile and cloud-based SaaS applications.

A typical portfolio deployment:



COMPETITIVE ADVANTAGES

- **COMPELLING VALUE PROPOSITION** - Global Health's products offer stand-out value in a sector with a track record of over-investment in products which are often inappropriate for the Australian market. There are numerous examples (eg. QLD Health, Fiona Stanley Hospital in WA) of deep-seated software problems reflecting poor product selection across Australian healthcare facilities. **Global Health is focused upon exceeding customer expectations in a rational forward-thinking market driven by financial returns.** As the market increasingly becomes more return focused in the face of constrained healthcare budgets, the company's compelling value proposition will become a greater competitive advantage.
- **BEST IN CLASS IN SPECIALIST NICHEs** - Within the mental health, hospital and secure messaging markets, Global Health's products are **among the best in class.**
- **UNIQUELY AUSTRALIAN PRODUCTS** - The Australian healthcare system is relatively unique in a global context with its 56% public / 44% private split across 1350 hospitals, and international software providers often find it difficult to break into the market due to product translation problems. Global Health's product range is customised for the Australian market which creates a competitive advantage versus international competitors.
- **PRODUCT SPREAD** - Global Health offers a broader and more flexible product range than most competitors with a view to becoming a one-stop shop for hospitals and community healthcare groups.

INDUSTRY OVERVIEW

OUTLOOK: DEFENSIVE GROWTH

- **Threat of new entrants** - MEDIUM: The healthcare IT market dynamics are well established and competitive in each segment as a number of players have invested significantly in technology development for many years. The main new entrants in recent years have been large international players (eg. Epic) who have been expanding into new markets including Australia.
- **Threat of substitutes.** - MEDIUM: In-house systems represent the main substitute threat however in the face of enormous budgetary constraints on both public and private hospitals Global Health's software offers clear competitive advantages as it improves productivity and efficiency without compromising the quality of care.
- **Bargaining power of customers** - MEDIUM: With 2000 community customers and 50 hospital customers the company is not particularly exposed to any large customers. In addition, the company is rapidly growing its customer base as it transitions to a higher volume, less customised product range.
- **Bargaining power of suppliers** - LOW: The company is not particularly exposed to any one supplier.
- **Competitive threats** - HIGH: Both the company's key markets, hospitals and community centres, are highly competitive. Global Health is one of the 5 major players in the hospital market and its key competitors include Cerner, Ramsay, CSC, All Scripts and Epic. Within the community sector, the company is a major player and is competing with TCM, Communicare and Penelope.

The Australian healthcare market is growing steadily (source: Medicare/ABS)...

Number of Medicare Services (m)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Hospital	23	24	25	27	28	31
Out of Hospital	256	270	283	292	304	313
Total	279	294	308	319	332	344
% Growth	8%	5%	5%	4%	4%	3%

LONG TERM GROWTH DRIVERS

1. **STRONG GROWTH IN HEALTHCARE IT SPEND** - Australian healthcare IT spend is running at under 1% of total healthcare revenue at present, well below the 5% of revenue spent on IT across the broader economy. **Healthcare is yet to see the online transformation seen across other industries whilst the volume of global healthcare data is expected to grow exponentially.** As efficiency improvements and data analysis become a greater focus in Australia and across the global market, IT spend is expected to trend upwards in the coming years. The Australian healthcare software market is currently around \$1bn in size (est.) and is likely to grow at 5-10% p.a. looking forward. Markets and Markets forecast that the global healthcare IT market will grow from \$US40bn in 2012 to \$US57bn by 2017 driven largely by an ageing population. Technavio are forecasting a 7% p.a. CAGR for the global market between 2015 and 2019.

“The global healthcare IT market shows immense potential for rapid growth in the future.” Reportsreports, Nov 2015.

2. **LIFECARD** - LifeCard presents a significant long term consumer healthcare opportunity for the company as **both doctors and consumers are increasingly demanding high quality healthcare information in one secure location.** A 2013 study by Deloitte showed the % of US consumers using electronic health records had doubled over 5 years to 16%. The company is focusing its R&D spend on leveraging this long term opportunity. Global Health has the advantage of its strong distribution network as well as connectivity across its network. LifeCard is currently being distributed using a “freemium” model but longer term the company will be aiming to monetise as the user base expands. A number of monetisation models and partnerships are currently being considered.

“As consumers, digital health has obvious benefits when it comes to the storage of our personal medical information that will vastly improve the way diseases and conditions are diagnosed and managed for Australian patients.” Hon. Sussan Ley, Minister for Health, Sport and Aged Care, 28th October 2015.

3. **TRANSITION TO A SAAS MODEL** - Global Health is transitioning towards a cloud-based Software as a Service (SaaS) model. The transition to a SaaS model involves migrating from higher priced customised installations to higher volume, lower priced installations with minimal implementation services. **18% of the company’s revenue has been transitioned to SaaS thus far** (as at Oct ’15, up from 13% y-o-y). Whilst an initial margin decrease is to be expected through this transition, over the longer term both revenue growth and margins are expected to increase reflecting the scale advantages of the SaaS model. The company is expecting to complete the SaaS transition by 2017. Through this transition the company is also integrating Mastercare, LifeCard and ReferralNet in order to provide a single connected healthcare eco-system. Initial feedback has been positive with better productivity gains and decision support for administrators, clinicians and patients.
4. **INTERNATIONAL EXPANSION** - The Australian market represents only \$1bn of the \$US50bn (’15 est.) global healthcare IT market so the international expansion opportunity is enormous. Management have spent the past 18 months preparing for the company’s international expansion which is now imminent. The company’s strategic focus is to expand its network of distribution agents and partners, particularly across Asia, the Middle East and Africa. The company has started selling to select Asian customers through the cloud, and feedback has been positive thus far. In July, the company announced the \$0.5m acquisition of Abaki, an Australian software vendor with excellent Vietnamese R&D capacity and installed software in 400 Australian healthcare practices. Further international acquisitions are not a short term priority but remain an option longer term. For example, the company’s product portfolio is particularly suited to the the UK mental health market so there is a significant opportunity if the company were to acquire distribution in this market. The company has a strong balance sheet which provides ample room to raise debt levels for acquisitions. **We expect international revenue to represent 5% of the company’s revenue in ’15/’16 and to trend upwards in the coming years.**
5. **SALES FORCE EXPANSION** - The company **recently expanded its sales force from 1 person to 4 people.** The 3 new hires are being trained at present with a view to boosting sales from February ’16 onwards. This move reflects increasing management confidence regarding future growth.
6. **LOCAL ACQUISITIONS** - There are **a number of compelling acquisition opportunities in the Australian market.** Global Health is well placed to acquire with a net cash surplus on the balance sheet.

14/'15 PERFORMANCE

1. **Hospital customers** (36% of rev) use the company's MasterCare system to manage patient workflow from pre-admission to discharge including bed, theatre and medical record management as well as billing and receipting. Hospital revenues declined 36% in 2014/15 as the final remaining contract for superseded product CHIRON PAS expired at 68 SA hospitals. The shift towards SaaS and the maturity of MasterCare ePAS led to lower average revenue per client due to the decrease in required customisation and implementation services. The pre-R&D operating margin only decreased 9% to 70% reflecting the company's "commodity subscription" model. High margins are expected looking forward.

2. **Community customers** (51% of rev) use the company's ReferralNet connectivity platform and MasterCare clinical and practice management systems in community healthcare operations. The company has a particularly strong position in the fast growing mental health market. Frost & Sullivan estimate that this market will grow at 9% p.a. between 2014 and 2018. Revenues grew 9% in 2014/15 despite the Commonwealth Government reorganisation of community health services effective 1st July, 2015. The pre-R&D operating margin fell 8% to 43% reflecting an increase in customers taking up the freemium (try before you buy) contract.

3. **AusIndustry R&D grant** (13% of rev) - The AusIndustry grant is received as cash since the company carries tax losses. The company's \$4m of accumulated tax losses suggest this grant is likely to continue for the next 3-5 years (and during this period the company will pay no tax).

KEY RISKS

RISK RATING: MED

- **Legal action against SA Health** - Global Health is suing SA Health for breach of copyright and breach of contract as SA Health continues to use the company's phased out software patient administration system, CHIRON, (superceded by MasterCare PAS in 2003) in 68 of the state's healthcare facilities without paying any fees. The company is seeking "relief by way of damages, declarations and a permanent injunction restraining the state from continuing to use CHIRON". The case began in April '15 and the next directions hearing is to be held in February 2016 with the ongoing preparation and exchange of evidence between the parties. A trial date is yet to be set. From Global Health's perspective the main risk is that any payout received does not cover their significant legal costs. More importantly in our opinion, the prelude to the case and the case itself have diverted some of management's attention and energy away from growing the business for the past year. Once the case is settled in the coming months management will be free to invest all their time and energy into value creation. We believe moving beyond this case will be a significant positive step for the company.
- **Transition to a SaaS model** - The shift to a SaaS model implies lower implementation revenues as less customisation is required. Whilst the company's longer term growth prospects are better under a SaaS model, in the short term there are ongoing revenue and earnings risks associated with the transition.
- **Government re-organisation of community healthcare** - Over 60 Medicare local healthcare facilities were replaced by 30 Primary Health Networks on June 30th, 2015. It is taking some time to fill the key management positions created by the community healthcare restructure and as a result the decision-making process across the new organisation is taking longer at present. The company's pipeline of orders remains intact but further delays are likely in H1 '15/'16. Normalisation is expected by H2 '15/'16.
- **Federal vs State Governments** - Disagreements between Federal and State Governments are common across the Australian healthcare landscape which can cause delays in decisions impacting upon suppliers.
- **Long lead times on decisions** - Buying decisions can take many years, particularly in hospitals, and in the interim technology has often evolved. Global Health is focused on developing its software each year and thus could be at a disadvantage with such a slow moving customer base.
- **Government-run My Health Record scheme** - The Commonwealth Government recently announced the My Health Record scheme would be restarted with trials commencing in 2016 for 1m Australians. The underlying assumption is that all Australians will be involved unless they opt out. The scheme has already failed once in the face of privacy obstacles. If it is successful this time it may be directly competing with LifeCard and could create a longer term risk for this business. Alternatively, the Government may look to outsource the health e-card operation to a company like Global Health which could create an opportunity.

MANAGEMENT & GOVERNANCE

STABLE

- **The company has a long term, stable management team.** Mathew Cherian has been the company's CEO since January 2002. Mr Cherian is particularly focused upon product strategy and international expansion, and was involved in the company's rebranding as Global Health in December 2007. In our opinion, Mr Cherian has a clear long term vision for the company based on sound industry knowledge and experience. He is also a major shareholder in the business. Peter Curigliano has been the company's CFO since May 2004.
- The company complies with the 8 Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council apart from: No formal nomination committee; this exception is understandable given the company's size. In our opinion the company's Corporate Governance policies and Code of Conduct are **both indicative of a well managed business.**

ETHICAL / SRI FACTORS

SCORE: HIGH

- **ETHICAL:** Global Health is contributing to a more efficient and highly functioning healthcare system with better care for patients and better returns for community healthcare groups and hospitals. The company is **clearly contributing on a social level.**
- **SRI:** Environmental - no apparent factors, Social - as above, Governance - ASX compliant, as above.

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