

MACH7 TECHNOLOGIES LIMITED (M7T)

UPDATE

STRONG CASH POSITION TO LEVERAGE CASH FLOW BREAK EVEN TARGET IN 2017

DIRECTORS & MANAGEMENT

Damien Lim	Non-Executive Chairman
Dr Nigel Finch	Non-Executive Director
Nobuhiko Ito	Non-Executive Director
Wayne Spittle	Non-Executive Director
Albert Liong	MD/Global CEO (US)
Jenni Pilcher	Global CFO/CEO (AUS)
Ravi Krishnan	Founder/Chief Strategy Off. (SGP)
Eric Rice	Chief Technology Officer (US)
Alyn Tai	Company Secretary

MARKET DATA

ASX Code:	M7T
Share Price (16/03/17):	\$0.32
52 Week Price Range:	\$0.29 - \$0.80
Market Capitalisation:	\$23.7 million
Mkt Cap (Fully Diluted):	\$37.8 million

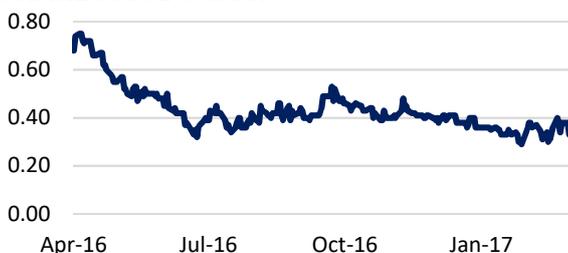
CAPITAL STRUCTURE (as at 15/03/17)

FPO Shares on Issue:	74.0 million
Shares on Issue (escrowed):	44.2 million
Performance shares:	25.0 million
Options (unlisted):	4.1 million

MAJOR SHAREHOLDERS (as at 06/03/17)

Washington H. Soul Pattinson	~9.7%
BV Healthcare II Pte Ltd	~9.6%
Ravi Krishnan	~5.0%
Pt Dwi Satrya Utama	~4.3%
United Overseas Venture Sdn Bhd	~4.3%

SHARE PRICE CHART



SENIOR ANALYST

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KEY POINTS

- Improved revenues validate new sales & growth strategy** – In its interim financial report to 31 December 2017, Mach7 Technologies increased operating revenues by 40% on the previous corresponding period to A\$4.8 million with a gross profit margin of 94%. The Company continues to develop an operational plan that anticipates cash flow break even or better by calendar mid-year 2017.
- Move to consistent and predictable revenue** - As part of its longer-term strategic initiative the Company has secured a number of lucrative contracts - delivering revenues of >\$10 million over 5 years - that form part of a push to build a consistent and predictable revenue base as Mach7 moves to grow market share.
- New strategy to maximise revenue optionality** - Mach7 continues to focus on a more expansive revenue capture model including pay-per-use and cloud-based delivery and service options. This builds on its core vendor neutral archive (VNA) enterprise imaging platform.
- Expanding global medical imaging technology footprint** - Mach7 continues to develop a leading IP position in the provision of medical imaging technology to the healthcare community worldwide.
- Significant growth in digital imaging** - Mach7 has identified a potential market opportunity of US\$3.8 billion (by 2020) with a focus on cloud-based enterprise platform over VNA and PACS. The Company is maximising and shortening the sales cycle to further improve tender-to-sales conversion rates (currently 86%) and on developing unique customer-specific solutions that significantly enhance and improve patient healthcare outcomes.
- Offering secure IP and US\$ cash flow** - Mach7 has a well-established platform managing >1 billion images across a growing blue-chip customer base with a solid order pipeline. The Company currently has an 86% success rate at the vendor stage
- Strong cash position** – At December 31, 2016 Mach7 had almost A\$6 million in free cash with no debt.

RECENT EVENTS

Interim Financial Results

On February 27 2017, **Mach7 Technologies Limited** released its Financial Results for the Half Year Ended 31 December 2016. On a proforma basis:

-)] Sales revenues: up 40% to A\$4.78 million
-)] Gross profit margin: ~94% (+6% on pcp)
-)] EBITDA (pro-forma) loss reduced by 59% to A\$1.4 million
-)] Net tangible assets at 31 December 2016: A\$5.7 million

On a pro-forma basis, the Company booked operating revenues of A\$4.8 million, an increase of by 40% on the previous corresponding period [Figure 1] resulting mainly from a 160% increase in recurring annual revenues (annual maintenance fees, subscriptions and pay-per-use fees). Service fee revenue was earned from software installations and training across eight (8) customers.

EBITDA losses in 1H FY17 fell 59% to A\$1.4 million (1H FY16: A\$3.3 million) reflecting improved operating revenues. Operating expenses during the half remained flat at around A\$6.4 million.

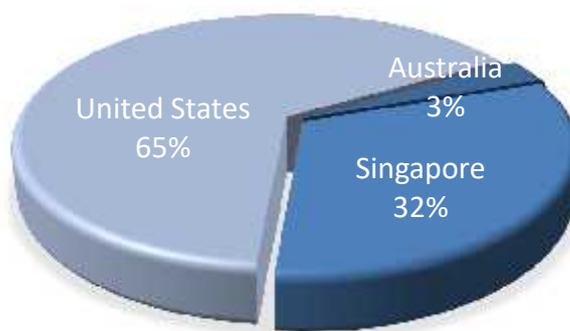
FIGURE 1. **FINANCIAL PERFORMANCE – MACH7** (Six months to December 31)

	Proforma Group 1H FY2016*	Mach7 Group 1H FY2017	Change
	6 months to 31 Dec 2015	6 months to 31 Dec 2016	
	A\$	A\$	+/- %
Revenue from continuing operations	3,413,091	4,786,024	40%
Cost of sales	382,900	278,872	-27%
Gross Profit	3,030,191	4,507,152	49%
<i>Gross profit margin</i>	89%	94%	6%
Operating expenses	6,434,734	6,434,218	-
EBITDA	(3,349,436)	(1,372,901)	-59%
Net Operating Profit (Loss) after Tax	(1,291,815)	(4,168,406)	223%

*Assumes combined Mach7 Technologies + 3D Medical results as at Dec 31 2015

Source: Mach7 Technologies

FIGURE 2. **MACH7 CUSTOMER SALES BREAKDOWN**, Half-year to December 31 2016



Source: Mach7 Technologies

Figure 2 shows Mach7 continues to derive the bulk of its sales revenue from the United States (65%) followed by Singapore. The Company is actively pursuing greater market share in the US and has already made successful forays into the European and UK healthcare markets.

cached up & debt free

With cash on hand as at December 31 2016 totalling A\$5.8 million (1H FY16: A\$1.9 million) and no debt, the Company is targeting cash flow breakeven by or before June 30 2017.

*targeting cash flow
break even in 2017*

FIGURE 3. **ABRIDGED BALANCE SHEET – MACH7**

	Jun 30 2015	Jun 30 2016	Dec 31 2016
	A\$	A\$	A\$
Current Assets			
Cash and cash equivalents	2,751,420	1,718,511	5,511,315
Total Current Assets	3,166,395	4,432,555	9,219,488
Intangibles	-	35,568,869	32,330,368
TOTAL ASSETS	3,688,958	40,800,993	42,238,304
Deferred revenue	-	2,367,797	2,545,953
Interest bearing liabilities	-	2,992,802	198,059
Total Current Liabilities	592,270	6,591,889	3,827,541
Deferred tax liability	-	10,524,728	9,574,680
TOTAL LIABILITIES	592,270	17,339,434	13,621,249
Contributed equity	11,078,442	45,790,190	53,113,182
Accumulated Losses	(9,523,196)	(24,086,493)	(26,097,909)
TOTAL EQUITY	3,096,688	23,461,559	28,617,055

Source: Mach7 Technologies

ANALYSIS AND COMMENT

Revenue Outlook

In the six months to December 31, 2017, **Mach7** operating net cash outflow of A\$2.4 million was impacted by weaker customer receipts during the December quarter with sales revenues totalling A\$4.8 million for the period. In 1H FY17, the Company has already achieved ~75% of annual proforma revenue booked in FY16.

*~75% of FY16 revenues
already booked in
1HFY17*

Operating costs for 1H FY17 were A\$6.4 million with the Company forecasting a similar cost profile for the second half of the current financial year.

From 2013 to 2015, the revenue mix for **Mach7** was increasingly reliant on receipts from software licencing. In 2016, there was a demonstrable shift toward annual support contracts as the core revenue driver.

revised revenue outlook

With continued improving sales performance expected in the second half of FY2017, we have lifted our revenue forecasts for the full year to A\$11.5 million [Figure 4] consistent with sustained growth in contracted revenue and market share.

Increased predictability in the revenue cycle, as the Company transitions to a monthly subscription model and a deeper client base, has prompted upward revisions of our revenue forecasts for FY18 and FY19 to A\$16.4 million and A\$18.9 million respectively.

There remains much disparity over expected growth rates of the global VNA-PACS segment of the healthcare IT market, with estimates ranging from 5% to 25% CAGR from 2016 through to 2024; regardless, it is seen as a deep growth market.

For our revenue modelling purposes we have assumed a mid-point CAGR of 15% through to 2019. Our forecasts reflect the high degree of contract variability (length, size, modularity, etc.) and creating bespoke solutions to suit individual clients. We expect the number of **Mach7** clients (currently 47) to increase significantly during this period in line with projected revenue growth.

CAGR of 15%

FIGURE 4. REVENUE FORECASTS

to June 30	PROFORMA*		FORECAST (A\$M)					
	FY16a	FY16a	FY17		FY18		FY19	
	US\$M	A\$M	OLD	NEW	OLD	NEW	OLD	NEW
Revenue	4.2	5.8	11.0	11.5	15.8	16.4	18.2	18.9
Cost of Sales	0.5	0.7	(13.3)	(12.9)	(13.3)	(12.9)	(13.3)	(12.9)
EBITDA	(6.2)	(8.5)	(2.2)	(1.4)	2.5	3.5	4.9	6.0
D&A/Impairment	6.9	9.8	-	-	-	-	-	-
NPBT	(10.4)	(14.6)	-	-	-	-	-	-

NOTES: Pro-forma revenue reflects what M7T would have earned if 3DM acquisition was effective 1 July 2015 (actually 1 April 2016). Pro-forma EBITDA excludes share-based payments expense.

Source: Mach7 Technologies, Gordon Capital estimates

The Company is confident its increasing participation in project tenders, a strong sales pipeline and sustaining and durable partnerships with distributors, particularly in Europe and the UK, will drive the business toward meeting its corporate objectives.

To achieve profitability in 2017, **Mach7** will require a focussed and aggressive sales campaign bolstered by a number of lucrative value contract wins that build on recent successes and in capitalising on the Company's high (86%) tender proposal-to-win ratio at the vendor selection stage.

durable partnerships

+86% tender-to-win-ratio

Growth Strategy

Mach7 continues to pursue a revenue model that better reflects the path of its most recent contract wins with a long-term strategic re-positioning that is focussed on:

-)} Shorter sales cycles
-)} Stronger recurring revenue base to deliver regular cash flows
-)} Robust long-term revenue growth
-)} Improved financial predictability

strong revenue generation pathway

These initiatives are being driven by a substantial increase in requests for proposals (+39%) and a more expansive digital footprint generated through increased website traffic and social media engagements.

improve price-value metrics

Looking ahead, the focus is now on reducing revenue dependency on traditional capital license modelling and to improve the revenue mix to deliver shorter sales cycles, stronger recurring revenue and improved financial predictability.

monthly subscription-based revenue model

This evolution in future revenue opportunities will be focused more toward a monthly subscription-based software and service offering [Figure 5], moving from a traditional capital, upfront software license fee and shifting to a recurring and scalable revenue model.

The mechanics of the monthly subscription revenue model include:

-) Customer pays based on monthly usage – procedure volume
-) Typical initial contract term is 5 years – predictive revenue stream
-) Fee is per procedure – highly scalable, across the enterprise
-) Customer looks to match expenditure with their revenue

FIGURE 5. **CHANGING CONTRACT STRUCTURE**



Source: Mach7 Technologies

Building on its proprietary, 100%-owned technology, **Mach7** is looking to develop and market its expanded product suite into mature and emerging markets across the globe.

The Company has a strong and growing customer order book with a strong pipeline of sales prospects and is participating in multiple tenders across healthcare markets in Australia, the United States, Europe and the UK.

cost control critical

One of the challenges to **Mach7**'s business model is its high cost base. Sales and marketing is expensive, but necessary. The Company will need to bank some big contract wins over coming months to lift margins and continue building revenues toward achieving its 2017 cash flow break-even objective

INVESTMENT PROPOSITION

The demand for more tactile medical diagnostic imaging technology and the capacity to diagnose, evaluate and plan key surgical response on an individual patient-specific basis is becoming an increasingly vital and expected part of healthcare.

With an aging population and a focus on preventative and more pro-active care over treatment, the use of medical data imaging in managing patient outcomes is moving into a new dimension.

Across the globe healthcare providers are grappling with enormous quantities of high quality image data that is generated in the diagnosis and treatment of patients in medical clinics and hospitals. From a care management perspective, the ability to access and/or share a patient’s complete medical history has been extremely limited, largely due to disparate data and aging archive and storage capacity held in proprietary silos.

Mach7 Technologies brings a number of compelling opportunities to expand its reach into the growing market for bespoke healthcare services and tailored patient wellness solutions that are competitively priced and cost effective.

The most significant components of **Mach7’s** software architecture is the capacity and ability to store, archive and share data across multiple platforms. This inbuilt flexibility and efficacy makes it a potential market leader above traditional proprietary PACS that provide terminal specific data analysis and retrieval systems.

With both its cloud-based medical image and VNA platforms, **Mach7** has developed a diagnostic tool that is independent of source data with the capacity to be shared across multiple platforms, both within a networked enterprise and across healthcare providers, with the ability to generate truly individual and customised patient care.

With its capable and experienced leadership team the Company has positioned itself to capitalise on long-term industry growth and create further shareholder value by identifying additional and complementary revenue streams and through building successful partnerships with existing and new clients.

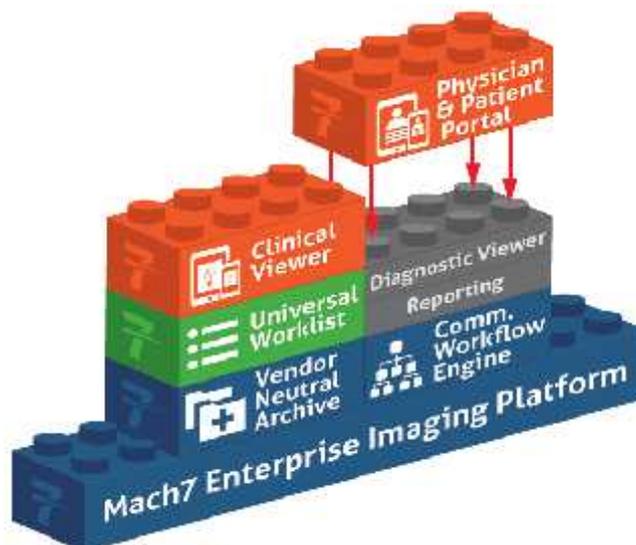
bespoke healthcare and tailored patient wellbeing

VNA & cloud-delivered software improves workflow and diagnostic flexibility

truly individual and customised patient care

capable management team

FIGURE 6. **ENTERPRISE IMAGING PLATFORM - INTEROPERABILITY**



Source: Mach7 Technologies

BUSINESS PROFILE

Mach7 Technologies Limited (ASX: M7T) is one of the world’s leading medical enterprise image management solution providers. The Company has developed an advanced medical enterprise imaging platform allowing clinicians and other medical and healthcare professionals to create, access, analyse and share patient specific information across multiple, compatible devices while improving patient outcomes.

Globally, **Mach7** is targeting multiple market segments including VNA, Image Exchange, Department PACS, Enterprise PACS, ECM and Enterprise Viewers within the healthcare sector for its proprietary software platform where the market opportunity is expected to grow to more than US\$3.8 billion by 2020.

In Australia, the Company provides medical specific 3D printing and holographic projection services and has formed a number of key alliances to strengthen the value proposition of its core medical imaging business.

US\$3.8 billion market opportunity

FIGURE 7. BROAD GEOGRAPHIC REACH



Source: Mach7 Technologies

As at December 2016, **Mach7** has 47 blue chip customers across ~500 sites with the ability to compete across numerous market segments.

Mach7’s global customer base spans 11 countries with installations in USA, Australia, India, Indonesia, Malaysia, Qatar, Saudi Arabia, Singapore, South Africa, UK, and Vietnam.

FINANCIAL SUMMARY*

INCOME STATEMENT			
(A\$M)	FY15	FY16	1H FY17
Revenue	0.1	1.9	4.8
EBITDA	(2.2)	(6.7)	(1.4)
Deprec/Amort/Impair	4.8	9.8	2.3
Finance Cost	-	0.2	-
PRE TAX PROFIT	(6.9)	(14.6)	(4.2)
Tax	-	-	-
NET PROFIT	(6.9)	(14.6)	(4.2)

BALANCE SHEET			
(A\$M)	FY15	FY16	1H FY17
<i>Current Assets</i>			
Cash & Equivalents	2.8	1.7	5.5
Receivables	0.1	2.1	3.0
Other	0.3	0.4	0.5
	3.2	4.4	9.2
<i>Non-Current Assets</i>			
Plant & Equipment	0.5	0.8	0.7
Intangibles	-	35.6	32.3
	0.5	36.4	33.0
Total Assets	3.7	40.8	42.2
<i>Current Liabilities</i>			
Payables	0.6	1.2	1.1
Debt	-	3.0	0.2
Deferred revenue	-	2.4	2.5
	0.6	6.6	3.8
<i>Non-Current Liabilities</i>			
Deferred tax	-	10.7	9.8
	-	10.7	9.8
Shareholders' Equity	3.1	23.5	28.6
Liabilities & Equity	3.7	40.8	42.2

*Balance Date = June 30

CASH FLOW			
(A\$M)	FY15	FY16	1H FY17
Net Cash Flow From Operations	(1.8)	(3.4)	(2.4)
Net Cash Flow From Investing	(0.5)	(4.4)	0.0
Net Cash Flow From Financing	4.4	6.7	6.2
Net Change In Cash	2.2	(1.0)	3.8

KEY RATIOS			
(%)	FY15	FY16	1H FY17
Revenue Growth	-	-	-
EBITDA Growth	-	-	-
EBITDA Margin	-	-	-
Net Debt/Equity	-	5.5%	19.0%
Intangibles/Equity	-	1.5	1.1
Top 20 Shareholders	43.7%	61.1%	61.1%

With several new patents designed to improve the accessibility and functionality of its core vendor agnostic medical image viewing platform, Mach7 is targeting the US\$3.8bn PACS market for its VNA platform to grow its VNA footprint and global reach.

Already more than 50% of the Company's revenues are US-sourced with a significant "land grab" opportunity to boost market presence likely over next 18-24 months.

Industry consolidation and mergers are expected to continue with 2017 forecast to be a benchmark year for digital imaging technology and the digital health economy as the major players – both provider and supplier – move toward the provision of more patient-centric care.

MORE INFORMATION

For more detailed information on **Mach7 Technologies** please refer to previous Gordon Capital Reports posted on the Company's website: mach7t.com

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