

14 September 2021

Total Brain

US Veterans contract greenlighted

Total Brain (ASX:TTB) is the developer of a neuroscience-based mental health & fitness platform powered by the largest standardized neuroscientific database in the world formed over almost two decades and with \$50m of R&D funding. The company has announced that its affinity partner IBM has entered into a contract with the first government client, US Veterans, of the IBM Health & Wellness 360 platform. Total Brain's platform is a core part of IBM's platform which is targeting the support of large populations in transition. The initial rollout of IBM's application is for 25,000 users, which represents \$0.6m in annual recurring revenue to Total Brain. As we have previously outlined in our research ([Total Brain RaaS Update 3 February 2020](#) and [Total Brain RaaS Update 2 November 2020](#)) we anticipate that the IBM affinity partnership will be rolled out to other populations in transition (reservists, National Guard, foster care children, prison parolists and addicts in recovery) with this estimated addressable market conservatively at 29m in the US and Total Brain securing 4.1% market share by 2030. This underpins \$0.23/share in our \$0.88/share valuation.

Business model

Total Brain operates a subscription as a service (SaaS) model for its mental health and fitness platform. The science behind the platform has been developed over almost two decades with input from the leading academic institutions in the field. This has generated a proprietary neuroscientific database of scale which underpins the scientific validation that differentiates Total Brain from other brain training and wellness applications. The app, promoted by affinity partners, assesses the four core brain capacities (emotion, feeling, cognition, self-control), pre-screens seven common mental health conditions and delivers personalised brain and mind/body training.

Initial rollout should deliver revenues in Q4 CY21

Total Brain does not mention the government agency in its release but we note that the company completed a highly successful pilot with 1,403 US veterans from July to November 2019 and so we deduce that the contracting agency is US Veterans. The company anticipates that the rollout to end users, which constitutes 10% of the 250,000 individuals who transition every year within US Veterans' total eligible population of 18m, will commence in Q4 CY21. This is just the first phase of a deployment to the client's total eligible population. Our forecasts define a total addressable market for the IBM affinity partnership of 29m (incorporating other transitioning populations beyond US Veterans) with TTB securing 4.1% of this population by FY30. Success should see the programme rolled out to the entire benefit-eligible population of 18m individuals overseen by this agency, the upsell of additional features such as Stress Management through Heart Rate Variability and Clinical Care Support.

Base case valuation is \$117m or \$0.88/share

We have used the discounted cashflow methodology to value Total Brain, arriving at a base case valuation of \$117m or \$0.88/share and generated from a WACC of 14.7%, terminal value 2.2%. In our view, continued validation of the company's technology should underpin Total Brain's share price performance in the near term.

Historical earnings and RaaS Advisory estimates (in A\$m)

Year end	Revenue	Gross Profit	EBITDA reported	NPAT reported	EPS* (c)	EV/Sales (x)
06/21a	3.7	3.4	(7.2)	(8.3)	(7.68)	9.4
06/22e	9.9	8.4	(5.3)	(6.1)	(4.68)	3.9
06/23e	17.7	14.8	(0.5)	(0.9)	(0.66)	2.3
06/24e	28.5	24.0	7.0	4.5	3.06	1.3

Source: Company data, RaaS Advisory Estimates for FY22e, FY23e, and FY24e * EPS normalised for one-time items

Share details

ASX Code	TTB
Share Price (intraday)	\$0.29
Market Capitalisation	\$38.6M
Number of shares	133M
Net cash (est Aug '21)	\$6.5M
Sector	Healthcare Services
Free Float	~57%

Share price performance (12-months)



Upside Case

- Hamptons Life D2C deal has potential to be a significant part of Total Brain's business
- Significant validation achieved with IBM choosing the platform as the engine for Health & Wellness 360
- Targeting predominantly US corporates and consumers

Downside Case

- Need to sell at the Enterprise level which means a sales cycle of 9-12 months for the B2B product
- New consumer product still being fully trialed in market
- Commercial success to date has been elusive

Catalysts

- Conversion of GRIT contract into revenues
- Evidence of D2C takeup in Hamptons Life JV

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*The analyst holds shares

FINANCIAL SERVICES GUIDE

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of

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AFSL 456663

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