



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Cellmid

By TIM BOREHAM

ASX code: CDY

Share price: 26 cents

Market cap: \$21.9 million

Shares on issue: 84,108,592

Chief executive officer: Maria Halasz

Board: Dr David King (chairman), Maria Halasz, Dennis Eck, Bruce Gordon, Dr Edward Walton, Dr Martin Cross

Financials (December half): revenue \$3.6 million (up 12%), net loss \$3.5 million (previously \$1.09 million deficit)

(December quarter): receipts \$1.1 million, cash outflows \$2.8 million, cash \$5.4 million, estimated March quarter outflows \$2.0 million.

Identifiable major shareholders: Dennis Eck 6.5%, Washington H Soul Pattinson 2.5%, Jasgo Family 2.4%, Gregory Glenn Worth 2.1%, Moore Family 1.7%, Cell Signals 1.5%.

As a life sciences company purveying hair loss prevention tonics and also running pre-clinical programs with its portfolio of midkines, Cellmid is frequently asked of investors: "Who are you?"

Apologies to The Who there.

“We are an unusual business with a consumer health and biotech component,” says Cellmid CEO Maria Halasz, who concedes that investors might have got a tad confused along the journey.

But Cellmid’s board has the answer to please both camps: within two years the company plans to demerge its clinical program, probably as a private entity funded by venture (or similar) capital.

“In the last two to three years we have been growing the market to make the consumer division more profitable, and so there is a strong sentiment from the market that we need to split the two businesses,” Ms Halasz says.

The proposal to split is central to Cellmid’s blueprint, dubbed Path to Profitability 2020. But beyond this statement of intent, no firm decisions have been made on how the bifurcation will be executed.

Ms Halasz says Cellmid first needs to grow both sides into “sustainable businesses” - a quest helped by this week’s first half results showing record hair revenue.

On the hair side, Cellmid must be doing something right, because Askmen.com last year accorded Cellmid its top grooming award in the category “best natural alternative for hair loss”.

Move over Advanced Hair: “Yeah, yeah.”

About Cellmid

As is the biotech norm, Cellmid’s focus has shifted over the years.

Then known as Medical Technologies, Cellmid listed in December 2005 on the back of work on inflammatory diseases undertaken by the University of Sydney and Western Sydney University.

However, this related to a different technology. In August 2008, Medical Development acquired its midkine portfolio from Cell Signals Inc. In late 2009, the company changed its name to Cellmid - the ‘mid’ being a reference to the midkines, which are growth factors that modulate cell growth, cell migration and cellular adherence.

The company claims to have the world’s most extensive collection of midkine patents.

Because they are not evident in healthy adults, over-expressed midkines are a handy indicator of early disease onset before physical symptoms become apparent.

Cellmid believes its portfolio is relevant not just for cancers and inflammatory diseases, but autoimmunity issues, ischemia (heart blood vessel damage), nerve growth repair and wound healing.

Midkines are also relevant to hair repair, but Cellmid's range of Évolis hair tonics are based on another technology called fibroblast growth factor five (FGF5).

Évolis is the key brand of Advangen, acquired by Cellmid from its Japanese owners in 2013 for roughly \$3.9 million in cash and scrip.

Hair, there and everywhere

Advangen has established a sales presence in the US and Japan and more recently in China and New Zealand.

In the US, Évolis has shelf space in Neiman Marcus, Soft Surroundings and Bloomingdales (about 40 shops, in all).

Last October, Advangen launched local sales of Fillerina - as in "fill 'er in" - the world's first, non-injectable, transdermal filler to reduce wrinkles and increase "facial volume".

Potential products in the lab include a dry shampoo that doesn't clog up follicles, as well as eyebrow and eyelash growth agents.

In China last year, Cellmid inked a five-year agreement with Fukangren Bio-Pharm Tech Co, by which Fukangren distributes Évolis lotions and shampoos to more than 500 chemists, hospitals and clinics.

In Japan, the products are marketed on QVC's home-shopping channel, which accesses 21 million households. QVC China was due to follow suit in January.

While the US recorded the highest growth rate, Japan continues to be the biggest contributor to Cellmid's revenues.

The hair-loss market is worth \$US7 billion a year - presumably that includes a few 'rugs' as well - with treatments based on minoxidil, a repurposed blood pressure medication.

"The problem is, it smells bad and is sticky," Ms Halasz says.

It's a rude question in the cosmetics milieu, but do the Évolis lotions actually work? Look no further than Ms Halasz who has a healthy thatch, having been the first to use the products after experiencing hair loss in her 40s.

Clinical progress

Cellmid's pre-clinical programs are focused on antibodies to treat myocarditis, heart failure, cancer, fibrosis, chronic kidney disease and associated conditions.

In a dense, but welcome, update on the clinical program last week, Cellmid highlighted the role of its midkine antibodies in heart muscle damage arising from the auto immune disease myocarditis.

There is no other cure for the chronic inflammatory heart disease, which can !!!!!be triggered by using checkpoint inhibitors as cancer treatments.

A paper prepared by Cellmid collaborators Dr Ludwig Weckbach and Prof Barbara Walzog, of Munich's Ludwig Maximilian University, was recently reviewed by Nature Reviews Cardiology.

Ja! Ja!

The studies to date have been based on cardiac biopsies from 14 autoimmune myocarditis patients and mice induced with the disease.

Between December 2015 and September 2018, Cellmid also issued positive updates relating to other inflammatory and autoimmune ailments, including chronic kidney disease and experimental autoimmune encephalitis.

In July 2017, Cellmid proclaimed that its midkine antibodies showed "anti-metastatic and anti-tumor benefits" for melanomas.

As a result, Cellmid plans to explore whether the midkine antibodies will not only improve myocarditis induced by the cancer drugs, but also have a direct anti-cancer action by limiting the spread of primary tumors to other organs.

Cellmid says: "The common feature of these studies is that blocking midkines modifies the behavior of immune and inflammatory cells that perpetuate the destructive tissue injury and organ dysfunction associated with several chronic diseases."

Cellmid now plans to validate its pre-clinical work further mouse-based work.

"We will come out with a single indication but we haven't decided on that yet," Ms Halasz says.

Finances and performance

Cellmid is making hair-raising progress with global sales of its Évolis elixirs, with December half sales growing to \$3.6 million (11.6 percent higher year on year).

In the month of December, Cellmid made a \$278,000 profit, the first month of profitability.

As a guide to the revenue trajectory, Cellmid posted \$5.65 million of consumer health revenue in the 2017-'18 year, up 25.5 percent. The company also lost \$3.73 million in that year.

The 'official' December quarter numbers show receipts of \$1.1 million, down 24 per cent.

The company attributes this decline to the timing of QVC Japan's promotional 'million day event' which saw strong sales. This revenue was due in January and should lead to a "robust" March quarter.

As of December 31, Cellmid has receivables of \$1.5 million and a cash balance of \$5.4 million (down from \$9.2 million in the previous quarter).

During the quarter the company repaid a \$2.0 million loan facility from specialist fund Platinum Road, which was just as well given the attached 12 percent interest.

In June 2018, the company raised \$9 million in a placement.

On a bum note, Cellmid last year lost a legal stoush against its former ad agent Ikon Communications.

The matter ended up in the New South Wales Supreme Court after Ikon sued for unpaid bills. In a counter claim, Advangen alleged non-performance from the admen.

Ultimately it was a case of Ikon one, Cellmid nil, as His Honor Justice Micahel Ball sided with the ponytails and awarded the agency \$939,000, plus interest.

Accounting for a 20:1 share consolidation in early 2018, Cellmid shares have traded in a 10-year range of 86 cents (October 2013) and 20 cents (March 2009).

Over the last 12 months they've traded between 57 cents (May 2018) and 25 cents (December 2018).

Dr Boreham's diagnosis:

The demerger decision means Cellmid should emerge as a more definitive consumer health company, with no risk of the profits being diverted to speculative drug programs.

For investors that prefer the clinical side, it's not clear at this stage if they will be allowed any ongoing exposure to that part of the business.

Cellmid's drugs and consumer health focus draws loose parallels with the flagging Phosphagenics, which flogged cosmetics while also developing its transdermal drug delivery technology. Of course, Phosphagenics had a well-aired problem called Esra, but investors never really knew whether the company was Arthur or Martha.

Luckily - and with apologies to Julie Andrews - Cellmid doesn't have a Problem Like Maria to solve, although the company is mitigating "founder risk" with some recent sales and marketing hires.

It's hard to know how much of Cellmid's \$20 million-ish market cap can be attributed to the hair loss side, but given the early stage of the clinical stuff we would guess it's the lion's share.

Cellmid's register includes no fewer than 10 institutions including Washington H Soul Pattinson, backer of chemist-shop owner Australian Pharmaceutical Industries.

Cellmid also has an enthusiastic supporter in Dennis Eck, who ran that little retailer called Coles between 1997 and 2001. Eck joined the Cellmid register in December 2017, became a director in March 2018 and late last year lifted his stake to 6 per cent via a \$9m share placement.

An 'eck of a commitment, one could say.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Given he has a full thatch; his follicular challenges are limited to helmet hair and bad hair days.