



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: ITL Health

**By TIM BOREHAM**

**ASX code:** ITD

**Share price:** 18.5 cents

**Shares on issue:** 85,552,339

**Market cap:** \$15.8 million

**Executive chairman:** Bill Mobbs

**Board:** Bill Mobbs, Mark Peatey, Andrew Turnbull

**Financials (December 2017 first half):** revenue \$13.1 million (down 25%), net profit after tax \$8.75 million (up 313%), earnings per share 9.2c (up 318%), net cash \$400,000 (previously \$2.7 million)

**Continuing operations:** revenue \$10.2m (down 10%), loss \$207,000 (previously \$2.1m profit)

**Identifiable holders:** Bilbo Holdings (Bilbo family/Bill Mobbs) 39.37%, Ron Shamga and The Boat Fund (4.59%), Chris and Betsy Carr 4.13%, Anacacia Pty Ltd (Wattle Fund) 3.14%, A and P Turnbull 3.21%.

The blood industry is often viewed as quintessentially defensive, especially in the context of the \$84 billion global success that is our once-humble CSL.

But in the case of ITL, the blood protection products supplier discovered that blood-related activity is not impervious to recession after all.

As ITL co-founder and exec chair Bill Mobbs explains, after the global financial crisis struck in 2008 blood collections declined and people deferred elective procedures.

At the same time, the development of keyhole surgery meant patients were spilling less claret.

“We always thought blood was recession-proof,” muses Mr Mobbs. “But the blood industry was in the doldrums and we are still seeing the effects.”

### **A bloody good business?**

ITL is a global leader in single-use devices for the clinical, blood-banking and laboratory markets.

At the simple level ITL’s products include surgical gowns, but the company’s 50 or so patents also cover unique devices to prevent infection in blood transfer procedures.

Examples are “starter packs” for intra-venous (IV) drips and invasive blood pressure monitoring procedures.

In the blood culture testing sector, ITL’s devices prevent contamination when blood is transferred from the platelet bag to the reagent bottle for testing.

“We tend to play in niche areas where we get a much better opportunity and our products are well-received,” Mr Mobbs says.

“We don’t like playing in me-too areas.”

ITL sells in 55 countries.

### **Blood is in ITL’s blood**

ITL was founded by Mr Mobbs, a Canberra information technology guy in 1994 along with former Therapeutic Goods Administration scientist Dr Jag Dillon.

While ITL’s devices have always been blood-related, the company’s market emphasis has shifted over time.

Mr Mobbs says ITL first looked at safety syringes - after all, it was the peak period for HIV and hepatitis C - but wisely decided there wasn’t a dollar to be made.

ITL moved into the blood donor sector, first supplying the Australian Capital Territory and then the American Red Cross.

“If you were giving blood you would have been using two or three of our products,” Mr Mobbs says.

ITL listed in 2003, having raised \$25 million at 50 cents apiece for a \$50 million market capitalization.

Mr Mobbs stepped aside amid boardroom issues in 2008.

In what one gossip columnist delightedly referred to as “a bloody coup”, in 2010 then CEO Brian Edwards and CFO Angelo Tsagarakis departed and major holder Thorney Investments dumped its stake.

Mr Mobbs retained his sangfroid and eventually re-emerged as executive chair, taking over from Julian Gosse.

After the blood recession we had to have, ITL turned its attention to blood culture testing.

### **Packaged up and sold**

In a further transformation, ITL last year sold its Melbourne-based business that packaged surgical kits of protective devices for \$14.4 million.

The buyer, Merit Medical Systems, acquired ITL’s manufacturing site at Chelsea Heights in Melbourne and revenues worth \$12.3 million in 2016-’17 (35 percent of ITL’s total revenue at the time).

“No matter how hard you worked, you couldn’t keep your head above water,” Mr Mobbs says.

“There was massive discounting. Rivals would lose a tender and then slash their prices to get it back.”

ITL now makes its entire product at an expanded plant in Malaysia.

### **What’s new?**

Mr Mobbs says ITL has had a good run with its older products over the last two decades, but as patents expire management’s attention has turned to new offerings.

“We have released five or six new products in the last eight months and we are working on another six or seven.”

One example is the Samplok Adapter Cap, which rules out bacterial infections. The Transfer Cap Set is not a superannuation term, but a product to move samples more hygienically.

The Segment Sampler is not a reference to Cadbury assorted chocolates but a device to obtain samples from blood-bank tubing.

Research house Marketandmarkets estimates the size of the blood testing market at \$US3.3 billion in 2016 and forecasts it will grow to \$US4.8 billion by 2021.

### **Will the tail wag the dog?**

ITL's greater fortunes could lie with its new division Myhealthtest, which has produced a home-testing kit for diabetes.

Further kits for prostate cancer, cholesterol and thyroid are pending accreditation.

The idea is that rather than visiting a doctor, the patients order a kit online (or through a pharmacy) and it's delivered by mail.

The user then sends the completed kit back to ITL's Canberra lab for testing and in a day or two can access the results on a smartphone.

"If you can get people to buy into their conditions then you have a much better chance of them moderating their behaviour to improve their health," Mr Mobbs says.

He was so confident of Myhealthtest's disruptive potential that he personally funded development for the first two years.

ITL eventually acquired the platform for a scrip consideration and has spent \$10 million developing it. "But it's time to look at a partner to take us to the next phase of sales and marketing," he says.

### **Financials**

ITL's comparative half-year sales of \$10.2 million (down 10 percent) were affected by a client selling down stock after building up inventory.

The sale of the packaging business resulted in an \$8.75 million profit for the period, but without it the company would have lost \$200,000.

ITL made \$3.4 million in 2016-'17 on \$35 million revenue, compared with \$344,000 on revenue of \$31 million in 2015-'16.

Mr Mobbs acknowledges the concerns of shareholders, who contend ITL's earnings are drifting, but points out the \$200,000 loss is after the heavy investment in Myhealthtest.

The proceeds from the sale were also used to reduce debt and launch a buy-back of a targeted 12.2 million shares, or 13 percent of the register.

### **Dr Boreham's diagnosis:**

With a number two position in the blood pressure monitoring market and ranking number three or four in others, ITL is another home-grown global biotech champion.

It's a pity ITL has a \$15 million market cap rather than an \$84 billion valuation, with its shares trading at their lowest point since November 2016, despite the share buy-back.

"We are a success story but as far as the market is concerned no one is paying us much attention," Mr Mobbs says.

Shareholders have the right to be queasy about the company's chopping and changing over the years and its erratic earnings performance. But the bottom line is that ITL's current valuation barely covers the company's net assets.

If Myhealthtest gains traction, ITL could prove a winner with little further bloodshed.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Your columnist road tested the home blood test and is pleased to report his glucose levels are bloody good.***