



Biotech Daily

Friday June 29, 2018

Daily news on ASX-listed biotechnology companies

- * **ASX DOWN, BIOTECH UP: AVITA UP 15%; PRESCIENT DOWN 8%**
- * **DR BOREHAM'S CRUCIBLE: ITL HEALTH**
- * **CSL'S SEQIRUS JOINS HUMAN VACCINE PROJECT FOR INFLUENZA**
- * **RALEIGH TAKES \$1m 5-YEAR MACH7 LICENCE**
- * **LBT: '1st APAS SALE DELAYED'**
- * **ELIXINOL WELCOMES US HEMP FARMING ACT**
- * **MMJ, DUTCH PASSION PARTNER**
- * **ONE FUNDS INCREASES, DILUTED TO 6.4% OF AVITA**
- * **HYBRID HOLDINGS TAKES 5% OF PHARMAUST**
- * **BENITEC APPOINTS OLIVER KIDD COMPANY SECRETARY**

MARKET REPORT

The Australian stock market fell 0.33 percent on Friday June 29, 2018 with the ASX200 down 20.8 points to 6,194.6 points.

Twenty-seven of the Biotech Daily Top 40 stocks were up, seven fell, five traded unchanged and one was untraded.

Avita was the best, up 0.9 cents or 15.0 percent to 6.9 cents with 6.7 million shares traded. Reva climbed 12.5 percent; Airxpanders, LBT and Oncosil all rose 9.52 percent; Imugene and Osprey were up more than seven percent; Immutep was up 6.9 percent; ITL and Opthea were up five percent or more; Neuren and Prana were up more than four percent; Benitec, Cyclopharm and Uscom improved more than three percent; Cochlear, Cynata, Polynovo and Telix rose more than two percent; Bionomics, Dimerix, Ellex and Volpara were up more than one percent; with Compumedics, Mesoblast, Nanosonics, Pro Medicus and Sirtex up by less than one percent.

Prescient led the falls, down one cent or 8.3 percent to 11 cents with 881,440 shares traded. Clinuvel lost 6.85 percent; Admedus and Starpharma fell more than four percent; Orthocell was down three percent; Factor Therapeutics shed 2.1 percent; CSL and Medical Developments were down more than one percent; with Resmed down 0.2 percent.

[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.

CSL

CSL says its subsidiary Seqirus has joined the non-profit New York-based Human Vaccines Project's Universal Influenza Vaccine Initiative.

CSL said its wholly-owned subsidiary Seqirus, established with the acquisition of Novartis' influenza vaccine business, was "a leading innovator" in influenza vaccine development and pandemic response, dating back to the 1918 Spanish influenza pandemic.

The company said the Initiative was a collaboration of organizations and partners working to accelerate the development of a universal and long-lasting influenza vaccine.

CSL said the initiative filled a gap in influenza vaccine research, "focusing on how the immune system responds to and develops immunological protection against multiple strains of influenza".

Seqirus head of research and development Dr Russel Bassler said "influenza remains one of our greatest global health threats and we are committed to collaborating with like-minded partners to advance understanding of the human response to influenza and to discover new and innovative vaccine solutions".

Human Vaccines Project chief executive officer Dr Wayne Koff said that "while there have been recent advances in the development of better influenza vaccines, we need to continue to work towards more transformational solutions that provide higher levels of protection against multiple strains of influenza for longer periods of time".

CSL fell \$2.22 or 1.1 percent to \$192.62 with 2.9 million shares traded.

MACH7 TECHNOLOGIES

Mach7 says it expects to generate \$1 million in revenue from a five-year licence of its data services to Raleigh Radiology for Raleigh's imaging systems.

Mach7 said that the Raleigh, North Carolina-based Raleigh would use the data services "as the foundation of their enterprise imaging strategy".

The company said the Raleigh licence came with a software licence fee, professional service fee and annual support fee, which the company said would take its total annual recurring revenue to at least \$5.2 million a year.

Mach7 was up 1.5 cents or 7.7 percent to 21 cents.

LBT INNOVATIONS

LBT says that the expected first sale of its automated plate assessment system (APAS) by June 30, 2018, will not be on schedule.

LBT said it was in advanced stage negotiations and expected to conclude these "imminently" and would provide further details.

The company said the system shipped to Cologne, Germany in April had been successfully installed and commissioned (BD: Apr 24, 2018).

LBT chief executive officer Brent Barnes said the company was "disappointed that the first sale has not yet occurred and we recognise achieving this by June 30, 2018 was an important milestone we have been guiding shareholders on and working towards".

"We still believe the first sale is very close and expect this to occur in the very near term," Mr Barnes said.

"With a dedicated sales executive in the field starting three months ago, we have confidence in our pipeline and our previous guidance to sell approximately five instruments before the end of 2018 calendar year," Mr Barnes said.

LBT was up one cent or 9.5 percent to 11.5 cents with 1.2 million shares traded.

[ELIXINOL GLOBAL](#)

Elixinol says it welcomes the US Hemp Farming Act of 2018, which was attached to 2018 Farm Bill which has passed the US Senate.

Elixinol said the Act legalized industrial hemp manufacturing at a federal level and removed it from the jurisdiction of the US Controlled Substances Act.

The company said the change, once signed by the US President, would remove existing barriers to trade, allowing hemp manufacturers to access finance, banking and insurance services without restriction and gain better access to water rights, all of which would be beneficial to the its subsidiary, Elixinol USA.

Elixinol was up 5.5 cents or 4.0 percent to \$1.445.

[MMJ PHYTOTECH](#)

MMJ says its subsidiary Toronto, Canada-based Weed Me has partnered with Amsterdam-based marijuana seed producer Dutch Passion.

In a media release attached to MMJ's announcement, Weed Me said the deal granted it the rights to more than 60 strains of cannabis and access to Dutch Passion's expertise in marijuana breeding, as well as the rights to market Dutch Passion products like cannabis flowers and pre-rolled marijuana "joints".

MMJ was up two cents or 6.35 percent to 33.5 cents with 1.15 million shares traded.

[AVITA MEDICAL](#)

Sydney's One Funds Management says it has increased its Avita holding from 78,347,669 shares to 81,747,669 shares but has been diluted from 7.46 percent to 6.40 percent.

One Funds Asia-Pacific Healthcare Fund II said it bought 3,400,000 shares for \$170,000 or 5.0 cents a share in a placement that raised \$16 million (BD: Jun 6, 2018).

Avita was up 0.2 cents or four percent to 5.2 cents.

[PHARMAUST](#)

Graham Darcy and Hybrid Holdings say they have become substantial shareholders in Pharmaust, with 10,273,851 shares, or 5.16 percent of the company.

The Perth, Western Australia-based Hybrid said it bought the shares between April 5, 2018 and June 25, 2018, at prices ranging from 4.0 cents to 5.4 cents a share.

Pharmaust was unchanged at 4.1 cents with 1.3 million shares traded.

[BENITEC BIOPHARMA](#)

Benitec says it has appointed Oliver Kidd as its company secretary, effective immediately. Benitec said that Mr Kidd had been a company secretary for a number of ASX-listed organisations and held a Bachelor of Laws, a Graduate Diploma in Legal Practice and a Graduate Diploma of Applied Corporate Governance.

Benitec was up half a cent or 3.85 percent to 13.5 cents.