



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Aroa Biosurgery

By **TIM BOREHAM**

**ASX Code:** ARX

**Share price:** \$1.04; **Shares on issue:** 341,862,816; **Market cap:** \$355.5 million

**Founder and chief executive officer:** Dr Brian Ward

**Board:** James (Jim) McLean (chair), Dr Ward, Steve Engle, Phil McCaw, John Pinion, John Diddams

**Financials (year to March 31, 2021\*):** revenue \$NZ22.3 million (down 11%), product revenue \$NZ21.5 million (down 2%), underlying loss \$3.28 million (previously a \$2.2 million profit), reported net loss after tax \$NZ19.2 million (previously \$NZ5.96 million), cash of \$NZ81 million\*\*

\* One \$NZ = \$A0.96

\*\* Post July's \$A47 million capital raising

**Identifiable major holders:** Dr Ward 9.7%, Phil McCaw 5.7%, Richard Abbott 3.8%, Aspire NZ Seed Fund 3.8%, Washington H Soul Pattinson 2.8%, (The venture capitalist Movac Fund 3 held 6% but distributed its holding to its investors).

As with Oliver Twist, Aroa chief Dr Brian Ward and his board are not afraid to ask for more.

Having raised \$45 million ahead of listing on July 24 last year, the Kiwi-based wound healing device outfit put its hands up for a further \$47 million in July this year.

Rather than whacking the company with a gruel ladle, institutions were happy to stomp up the dough, even though the placement was struck at a mere 1.7 percent discount to the prevailing price (\$1.165 a share).

(As usual, retail shareholders were far more reticent, with the follow-on share purchase plan raising less than \$400,000 of the targeted \$5 million.)

With its coffers engorged, Aroa is embarking on an expansion drive with new approved devices in myriad geographies.

Auckland-based Dr Ward is unfazed about being on a small island at the bottom of the world - especially when the pandemic has negated the tyranny of distance, anyway.

With underarm bowling controversies possibly still fresh in his mind, Dr Ward notes that New Zealand is not the only Anzac (Australia and New Zealand Army Corps) member with a minute footprint on the world stage.

“It’s the same as being an Australian company,” he says.

“We’ve been in the US for more than 10 years and have got used to working there.”

“It was pretty scary at the beginning, but like other businesses we have adapted to it and learnt how to do a whole lot of things better.”

## **The story to date**

Aroa’s foundation product is its extracellular matrix platform technology that has nothing to do with Keanu Reeves but everything to do with promoting new tissue growth and blood supply.

The sheep stomach-based material dissolves in the body after it has done the job.

Its first product, Endoform, has been used for non-healing wounds such as diabetic and venous foot ulcers.

Other iterations are Myriad Matrix (soft tissue reconstruction), Myriad Morcells (a granulated variant), Ovitex (reinforced scaffold for abdominal wall reconstruction) and Ovitex PRS (plastic surgery such as breast reconstruction).

The company claims its products are 20 percent to 60 percent cheaper than competing biologics-based products “while offering superior regenerative performance”.

Aroa was founded by Dr Ward, a veterinarian with a keen interest in the use of biologic materials and scaffolds for soft tissue regeneration.

Being a Kiwi, his work centred on sheep and he discovered that the gut lining of the ruminants was an ideal material, given their thick extracellular matrices and secondary 'signalling' molecules that promote cell growth.

With \$NZ1.5 million of seed capital, Dr Ward founded Mesynthes in 2008 and employed two research scientists.

Way back in 2010, the US Food and drug Administration approved Endoform Natural for non-healing wounds. First sales flowed in 2013.

The products are made at Aroa's Auckland factory, which is about to be augmented with a new facility across the road - due to be finished by December and commissioned in March next year.

### **How's it going bro?**

Aroa has not been immune to Covid-19, in that the virus deferred elective surgeries in March and April last year before they rebounded in May.

"We had predicted we would be down by 50 percent, but it's turned out to be not as severe as that," Dr Ward says.

"We are quite pleased how things tracked back in May and June, but it is going to be bumpy in the US over the next six months."

Aroa has regulatory clearance in 49 countries, compared with 37 at the time of listing, with approvals covering Germany, Italy, Austria, Switzerland, the UK, the Middle East and South East Asia.

"We are just getting started in these markets," Dr Ward says. "We have also just been approved in India. There are some fantastic hospitals there and the top end of the market is a big opportunity."

In July 2020, the US Food and Drug Administration green-lighted Symphony, a skin substitute product for complex wounds.

In April this year, the US regulator approved Myriad Morcells, having approved Myriad Matrix in June 2017.

About half of Aroa's revenue derives from its US partnership with the Nasdaq-listed Tela Bio.

The alliance is a licencing arrangement that involves revenue sharing, with Tela Bio responsible for clinical trial costs for new products.

The duo collaborated to develop Ovitex, Aroa's first surgical product which the FDA approved for hernias in 2013.

## **Where's it going bro?**

Aroa is working on a new platform for dead space management, which is not about cemetery administration but dealing with the cavities that remain after soft-tissue surgery.

The company is emphasizing the use of Myriad Morcells for soft tissue reconstruction, including trauma and inflammatory conditions.

In a revamp of its sales approach, Aroa directly appointed 20 sales reps in February. This supplements an existing relationship with Tela Bio.

“The sales reps have been focused solely on developing Myriad and we see that as the biggest growth driver over the next 24 to 36 months,” Dr Ward says.

“The Endoform products are more mature and growth rates are slower.”

He says Aroa now has a “really good” portfolio and will be banking on existing brands for sales growth, rather than new approvals, over the next three years.

“It's all about sales and marketing execution.”

Meanwhile, the new factory will lift annual revenue capacity from \$NZ35 million to \$NZ100 million - and all for a circa \$NZ4 million investment.

## **Let's get clinical**

Aroa has just published the results of a ‘real world’ study pertaining to Endoform and diabetic ulcers.

Covering 1,150 wounds, the study found a “significant reduction” in healing time relative to the standard-of-care (collagen products). The wounds took 1.9 to 5.6 fewer weeks to heal, a time saving of 11 percent to 21 percent.

Aroa is now carrying out a 12-patient complex wounds pilot study for Symphony in the US, which hopefully will extend into a broader 100 to 200 patient effort.

Meanwhile, Tela Bio is kindly funding several prospective studies of the use of Ovitex for simple and complex ventral hernias.

Data from the first 50 patients after 24 months shows “significantly better outcomes” compared to the market leading products.

Hernias are formed after abdominal surgery, with a recurrence rate of 10 percent to 30 percent. Many patients require repeat surgery.

Full data is expected by the end of the year.

## **Finances and performance**

Aroa posted product revenue of \$NZ21.5 million in the 12 months to March 2021, two percent lower but creditable in these Covid-ravished times.

The net loss after tax almost tripled to \$NZ19.2 million.

Management is chirpy enough provide revenue guidance of \$NZ30 million to \$NZ33 million for the current year, despite the “Delta dip” that resulted in elective surgeries being cancelled, especially in Florida and Texas.

“Hospitals are managing things better and not delaying so many surgeries,” Dr Ward says. “By the time we get to November things will be at a similar level to the first part of this year.”

Aroa’s initial public offer raised \$45 million at 75 cents apiece.

The shares softened in July this year after a large wad of vendor-held shares came out of escrow.

Management rustled up buyers for any share overhang, but there were few sellers and that girded the company to launch the follow-up capital raising.

The share price also endured a decision by the Kiwi venture capital fund Movac to make an in-specie distribution of its Aroa stake to its investors.

Movac principal Phil McCaw retains a direct Aroa stake of just over five percent – and a board seat.

## **Did someone mention Polynovo?**

Okay, Polynovo has a synthetic rather than biologics-based product. But Polynovo and Aroa aren’t exactly chalk and cheese either, and thus their relative valuations make for a telling comparison.

In the 2020-’21 year, Polynovo generated \$29.3 million of revenue and \$25.5 million of product revenue, not dissimilar to the \$NZ30 million to \$NZ33 million Aroa guidance.

Polynovo made a slim \$300,000 net profit in the 2020-21 year. Aroa is not expected to be in the black this year.

Polynovo is valued at \$1.28 billion, while Aroa commands a circa \$355 million valuation.

Biologics-based scaffolds tend to be more expensive than the synthetic ones - and they both have their place in the surgery. Synthetic matrixes are more durable, but the natural ones have superior regenerative qualities.

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

With \$NZ60 million of cash in its lambswool-lined kitty, Aroa is in a sturdy financial position - especially as most of the development work has been done and dusted.

Given the circumstances, Dr Ward is chuffed about how the first 12 months have panned out for Aroa as a listed beast.

"When we listed, we were in that Covid 'fog', not really knowing how things would turn out," he says.

"Things have come back strongly this year and the business has really responded to that."

Despite Aroa's geographic reach we shouldn't forget that the US market accounts for 95 percent of revenue.

Given the \$US1.5 billion US addressable market for Aroa's current products and a further \$US1 billion for its products in development, this is unlikely to change in a hurry.

Last week Woolworths was selling the Kiwi delicacy, chocolate-coated pineapple lumps (Mrs Crucible's favorite treat) for \$1.08 a bag, almost two-thirds off the usual price.

Like the luscious lumps, Aroa shares are trading hands at a similar discount. Just don't remind our trans-Tasman allies that since 2018 all pineapple lumps have been imported from Australia.

***Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He finds ovine-themed New Zealand jokes distasteful, especially the one about the Kiwi bloke who couldn't take his girlfriend to the rugby because she'd eat all the grass.***