



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Compumedics

By TIM BOREHAM

ASX code: CMP

Share price: 42 cents

Market cap: \$74.4 million

Shares on issue: 177,162,948

Executive chair: Dr David Burton

Board: Dr Burton, David Lawson, Tucson Dunn

Financials (December half 2021): revenue of \$18 million (down 1%), earnings before interest tax depreciation and amortization \$1.9 million (up 58%), net profit \$1.3 million (up 717%), cash of \$5.6 million (up 65.9%), debt of \$3.7 million

Identifiable major shareholders: D and DJ Burton Holdings (David Burton) 54.2%, Beijing Bestmed Tech 2.77%, Medigas Italia 2.45% (Italian distributor).

The founder of any business needs to think big - in a disciplined manner of course - and for Compumedics chief David Burton it's all about the home-grown neurological imaging emulating the success of magnetic resonance imaging (MRI) devices.

Magnetic resonance imaging is the standard of care for bodily scans - while Compumedics' contender is its brain scanning gizmo called MEG (as in magneto-encephalography, not Margaret).

Dr Burton notes there were fewer than 100 MRIs in the 1980s; today there's a global installed base of 32,000 with about 3,400 new ones sold each year.

"I see no reason why there wouldn't be at least more or equal demand for MEG as MRI, because of the importance of brain disorders with mental health and the like," Dr Burton says.

The MEG units sell for \$5 million to \$7 million, which implies a global market of at least \$160 million compared with Compumedics market value of circa \$70 million.

About Compumedics

Dr Burton founded the company way back in the mid-1980s – an era when we drove around in our new Commodores and played Tetris on our Commodore 64s.

In 1987, Dr Burton installed Australia's first computerized sleep clinic, at Melbourne's Epworth Hospital.

Compumedics listed in 2000 - late enough to miss the excesses of the tech boom.

Compumedics' core products range across sleep diagnosis, clinical electro-encephalogram (EEG) scans, brain monitoring and ultrasonic blood-flow systems.

Established products include Grael and Siesta for sleep, Neuron for neurology and Synamps RT and Curry for brain research. CHECK!!!!!!

Compumedics owns the US-based Neuroscan and Germany's DWL Elektronische (which delivered the company's Doppler transcranial scan capacity: that is, ultrasounds to detect vascular systems within the brain).

Half of Australia's hospitals use Compumedics neuro-diagnostics and EEG products, while the company has also tied up the majority of sleep clinics.

The MEG story to date

Apart from being able to spell magneto-encephalography, Compumedics reports progress on other fronts with its MEG ambitions.

The company's flagship product is the Orion Lifespan Curry MEG, a patented double relaxation oscillator super-conducting quantum interference device. (And no, we haven't been watching too many old Dr Who episodes.)

Dubbed the "MRI of the brain", MEGs measure the electrical speed of the brain's thinking and processes. Compumedics licenced the MEGs hardware from the (South) Korean Research Institute of Standards and Science (KRISS), that country's equivalent of the CSIRO.

In 2017, the company won the first contract with Arizona's Barrow Neurological Institute, "the number one training centre and world leader in neurosurgical practices".

As home to the Muhammed Ali Parkinson Centre, Barrow can claim to "the greatest", at least in terms of neurology training and neurological vascular surgery.

"Many Australian neurologists have trained there," Dr Burton says. "We were quite conscious that was going to be the important battle and we won that deal."

... and how it's unfolding

In February this year, the company won US Food and Drug Administration assent for a so-called dual-helmet dewar Orion Lifespan MEG, a version that's been designed for both children and adults.

After Covid-related delays, the unit is due to be installed at the Barrow this year.

In Dr Burton's user-friendly vernacular, the dewar units look like "Marj Simpson hairdryers". If a child's head is placed in an adult sized dewar, the strength of the signal is reduced because of the distance from the sensors to the brain synapses.

"It makes an awfully big difference," Dr Burton says.

"With this tech you need to put the child's head against one side of the (unit) and scan it and then against the other side and join the hemispheres in the software.

"Then you have the inaccuracies resulting from merging the two digital images."

Dr Burton adds the Orion MEG units use virtually no helium, which prevents downtime created by the noisy phase when the gas is recycled.

"You can use ours day and night and for twice the population," he says.

No napping in the sleep diagnosis market

Another growth foray revolves around Somfit, an internet cloud sleep diagnostics tool based on a single-use disposable sensor and reusable monitor. Somfit is designed for home use.

In effect, Compumedics is entering the 'wearable' device sector, leveraging its 30 years of the sleep experience. The company expects Somfit to be available for less than \$200, or by monthly subscription.

Currently, the company is mulling its commercialization route, which should involve partners such as pharmacies.

“We won’t be opening up a lot of corner shops but we will be working with a lot of strategic healthcare deliverers,” Dr Burton says.

He adds, by way of a hint: “We are open minded and welcome approaches as we are open for business.”

In the meantime, Compumedics’ professional version, Nexus360 is experiencing substantial growth. This “clinic in the cloud” is deployed across 46 sites, covering 270 beds.

“The new era has allowed us to expand that side of the business,” chief financial officer David Lawson says. “Everyone is talking telemedicine and e-health.”

Finances and performance

Despite the site restrictions posed by Covid, the company had a ‘good’ pandemic, as evidenced by its reported 717 percent net profit surge for the first (December) half, to \$1.3 million.

Revenue dipped one percent to \$18 million because of Covid constraints, but turnover was a tale of disparate geographies. While European sales surged 46 percent and Australian sales jumped 15 percent, US and Asian sales retreated 17 percent and 20 percent, respectively.

“The American business has been a bit soggy throughout the pandemic,” chief finance officer Mr Lawson says. “But we do have a strong pipeline heading into March.”

Management expects full-year performance to be “at or better than” 2020, partly because delayed shipments will trickle to the revenue line in the current quarter. New sales orders were 13 percent higher, at \$20.3 million.

“From my perspective the core business has weathered the storm much better than we thought,” Mr Lawson says. “I’m quietly confident we will bounce back to growth in the second half.”

For the first time, the company has broken down the performance of the established core device business and the research division. Without the \$800,000 loss recorded by the latter, the company would have reported a \$2.4 million net profit.

Compumedics shares have traded as high as \$1 (January 2001) and as low as 8 cents (June 2013).

End of the jet-set era?

The company’s improved earnings were partly achieved by an eight percent reduction in expenses, reflecting the near absence of travel costs during the pandemic.

Pre-Covid, the company spent \$80,000 to \$90,000 a month on travel. And if that seems steep, bear in mind that the company derives only 15 percent of revenue from our shores.

As with so many other companies, don't expect things to snap back to Prime Minister's Scott Morrison hoped-for "normality".

"If we are able to make more money by not travelling, you can bet there will be more scrutiny," Dr Burton says.

"I expect we will get better margins out of the company because we will bring better processes and methods to double check whether we do need to travel."

Given so many other companies will be adopting the same stance, we suggest investors lighten up on Qantas and any exposure to the Las Vegas convention industry.

Save your nuts for a rainy day

A quirk of Compumedics is that despite the company's long history, it has only raised equity twice: at the 2000 initial public offer and in 2016 (\$6.5 million).

"Our biggest shareholder is a squirrel at the best of times," Mr Lawson says.

That's a cheeky reference to the 'other' David, 54 percent shareholder Dr David Burton.

The company has \$4.3 million of cash, but if needs be, the bank will help out with non-dilutive debt funding.

Dr Burton adds that he would "assist" with a sell down of his stake if a major opportunity arose.

"That's when the squirrel will unload a few nuts and create a bit more liquidity," he says. "But as we get older it takes a bit more to get you excited and you should keep your nuts for a rainy day."

What happens from here?

Management alludes to developing two new major product platforms for home sleep testing, "as well as a new range of laboratory and portable neurodiagnostic and devices for epilepsy and general monitoring".

Dr Burton notes the company has a captive customer base, given the widespread use of its Curry analytics software.

But with this product selling for tens of thousands – rather than millions – of dollars, the trick is to capture more value with offerings such as the Orion MEG.

“We will tap into that as the best customers are your current customers and we need to look after them first,” he says. “We have a well-seeded position going back 20 to 30 years - and that gives us a head start.”

Dr Boreham’s diagnosis:

Compumedics already claims to be the number one provider of sleep and neurological diagnostics, locally and in Japan.

But with the global sleep diagnostics market worth valued at \$US250 million and the neuro-diagnostics market at \$US1.3 billion, there are bigger prizes to seize.

MEG is considered a high-growth sector given the prevalence of Alzheimer’s disease and other dementia conditions, not to mention autism, Huntington’s disease and epilepsy.

One key criticism of Compumedics is that it’s been around since Adam was whelped, but is still a modest concern.

The stock has treaded water: when we last looked at them in early April 2020 the stock traded at 47 cents; and before then (in July 2017) at 45 cents.

Dr Burton says with deep-pocketed potential partners knocking on the company’s door, momentum should be felt in 2022.

He adds that all good things take time.

“We have a foundational track record with real leading technology, but we haven’t yet executed the step-out from the diagnostics [capital equipment] to the major breakout [products],” he says.

“That was our strategy and still is.

“Yes, it’s been a long time but your best wines have been there for a while too.”

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Sadly, he didn’t wait to see if his best wines improved with age but his nuts are safely stored away.