



Biotech Daily

Friday June 9, 2017

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Ellex Medical Lasers

By TIM BOREHAM

ASX Code: ELX

Market cap: \$125 million; **Share price:** \$1.03; **Shares on issue:** 121.1 million

Chief executive officer: Tom Spurling

Board: Victor Previn (chairman), Alex Sundich, Giuseppe Canala, Rhamon Coupe, Dr Meera Verma

Financials (December half): revenue \$34.26m (down 1.5%), ebitda \$3.2 (down 9%), net profit \$912,000 (down 39%), earnings per share 0.87c (down 19%), cash on hand \$14.1 million (up 94%)

Major shareholders: Australian Ethical 7.4%, National Nominees 10.5%, Sedico Pty Ltd (Previn) 8.2%, Pine Street (Sundich) 5.5%.

Here's an eye-opener: a biotech with a 32 year history - 16 as a listed ASX stock - with an enduring earnings track record and global sales in more than 100 countries.

Ellex also wins some kind of novelty award for having its global headquarters in Adelaide, although we note that others including Mayne Pharma and Bionomics are based in the city more known for kinky murders, pie floaters and (for those with a longer memory) the proposed multi-function polis.

It was thus with justifiable pride that chief executive officer Tom Spurling and his management team recently paraded analysts around Ellex's new HQ and manufacturing centre at Mawson Lakes in the city's north.

The building and land was only acquired in March last year, with the Therapeutic Goods Administration approving the facility in February this year. The 4000 square metre digs - which augment a leased central business district premises and more than doubles Ellex's capacity - will be the base for Ellex's design, manufacturing and marketing of its ophthalmic laser and ultrasound devices.

Ellex's lasers and other devices help eye surgeons treat glaucoma, diabetes-related retinal disease, secondary cataracts, vitreous opacities and age-related macular degeneration (AMD) - pretty much the A to Z chart of optical woes.

Bearing devices with funky names such as the Tango Reflex and Itrack (glaucoma), 2RT (early AMD), Ellex boasts a circa 15 percent global share of the core ophthalmic device market.

Ultra Q Reflex is a minimally invasive treatment for cataract-related floaters (not to be confused with the pie floaters).

Ellex 2RT facilitates retinal rejuvenation therapy, a pioneering laser treatment that may slow the progression of AMD.

"Based on results to date, 2RT is demonstrating that it has the potential to be the world's first interventionist treatment for early to intermediate AMD," Ellex says.

The Tango Reflex is an alternative laser treatment for glaucoma, obviating the need for a regimen of daily drops.

Of Ellex's \$72 million in annual sales last year, 36 percent was derived from the US and 25 percent from Europe. Japan at 15 percent is also an important market and China is a growing one. Local sales account for about 9 percent.

In the US, Ellex has a direct sales subsidiary, based in Minneapolis. Elsewhere, Ellex deploys both direct sales and third party arrangements across 50 distributors.

In May, Ellex said it would buy-back the royalties for its Itrack device for \$US2.15 million (\$A2.9 million). The payment, which includes \$US650,000 already made, removes the need to pay royalties to Itrack's vendor, ISCI Holdings, over the next five years.

In doing this, Ellex obviously believes the royalties are worth more than the \$US2.5 million over the period. Itrack is a single-use micro catheter for minimally invasive glaucoma surgery (MIGS) and has the honour of being the only MIGS device approved in China.

'Looking' at the financials:

Over the last four years to 2015-'16, Ellex increased revenue consistently, by a cumulative 74 percent to \$73 million while earnings before interest taxation depreciation and amortisation (Ebitda) was up 1,480 percent to \$7.9 million.

But 2016-'17 first half revenue was affected by production bottlenecks, with unfilled demand for the Tango Reflex.

Ebitda was affected by the investment in the Itrack and 2RT products.

While first-half revenues are skewed to the core laser and ultrasound division - \$30.3 million of the total \$34 million - glaucoma (Itrack) is cited as a fast growing business and 2RT (AMD) as an emerging one. Itrack sales jumped 37 percent to \$3.6 million.

In a recent prezo, management guided to the core division's revenue being higher than the first half, with "accelerating" growth for Itrack revenues that grew 37 percent to \$3.6 million in the first half. Ellex 2RT sales are expected to be flat, depending on clinical trial results due in mid-2018.

And here's the one we're all waiting for: second half Ebitda is expected to be higher than the first half number, which means "modest growth" over the full-year number.

Dr Boreham's diagnosis:

Ellex shares have taken a breather after whizzing up to \$1.62 in late November. Even so, the shares trade on a dizzying earnings multiple and a generous dollop of upside has been factored-in.

There's no shortage of patients: the company estimates the global glaucoma market at \$US4.6 billion (82 million patients), retinal disease \$US1.9 billion (107 million patients), early AMD \$US5.1 billion (122 million patients) and cataracts \$US3.3 billion (25.3 million patients).

As any experienced bio-watcher knows, the real metric is: 'How much of such a ginormous market a minnow from Adelaide can snare?'

Ellex competes against bigger and more monied providers. But on its track record to date, the company has shown enviable vision in developing differentiated offerings.

It's a moot point whether Ellex shares present value, but we would rather be buying them at \$1 than \$1.60.

Investors who bought into a \$10 million placement last December at \$1.47a share may be feeling less charitable.

Still there's always the local feel-good angle: after the last Holden Commodore rolls off the production line at nearby Elizabeth on October 20, Adelaidians will have more than Eddie Betts' boundary line heroics to be proud of.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Happily he has experienced neither optical floaters nor pie floaters.