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Dr Boreham's Crucible: Mach 7 Technologies

By TIM BOREHAM

ASX Code: M7T

Share price: 23.5 cents; **Market cap:** $31.1 million; **Shares on issue:** 132,468,164

Financials (2017-18 year): revenue $8.6 million (down 16%), earnings before interest, taxation, depreciation and amortization (Ebitda) loss $2.637 million (previously $4.22 million loss), net loss after tax $4.95 million (previously $17.65 million deficit)

September quarter: receipts $2.3 million, cash burn $682,000, cash $1.83 million*****, estimated current quarter outflows (before inflows) $3.2 million

***** Ahead of $3 million capital raising in late November

Chief executive officer: Mike Jackman

Board: Damien Lim (chairman), Dr Eliot Siegel, David Chambers, Wayne Spittle

Identifiable major shareholders: Oceania Capital Partners 8.6%, BV Healthcare II Pte Ltd 8.6%, JM Financial Group 7.6%, Ravi Krishnan 4.37%

While the Australian government has a little more persuasive work to do with its My Health Records scheme, there's little doubt that digital health records in a central repository will become the norm globally.

That's especially the case in the US, where mandatory electronic records was a key - and surviving - pillar of Obama's Affordable Care Act.

Based at Burlington in Virginia, Mach7 is surfing the trend with its cloud-based enterprise software for hospitals and clinics that aggregates an individual's medical records so that they are readily available for healthcare professionals.

It also provides diagnostic and imaging tools to all the "ologists"; radiologists, oncologists, cardiologists, pathologists, ophthalmologists, etcetera.

Mach7 provides picture archive communications system, or PACS, which is the diagnostic tool used by clinicians. But it also provides vendor neutral archives, or VNAs. As their name suggests VNAs allow any provider's imaging tools to be integrated on the platform.

"Our system is designed to take everything from images to videos to documents and to consolidate them on the one platform," says CEO Mike Jackman. "That makes it easier to manage and access the data on phones, devices or web browsers."

The system is designed to integrate the harder stuff, such as images or data from non-compatible devices or legacy applications, on the one platform.

In the US, the company says, 25 percent of patients complain their results or records from one provider were not available for another in a timely manner. In three out of 10 cases the records couldn't be found at all.

More worryingly, 80 percent of all serious medical errors happen because of miscommunication as patient care is transferred from one provider to another.

We know: it's easy to mishear right leg for left ear.

Going global

While the company is focused on the US market, it has clients in the UK, Qatar, China and South East Asia.

Clients include Penn Medicine, Massachusetts General Hospital, University of Virginia Health System, Broward Health (a top 10 hospital owner), Maine Health (a state-wide healthcare provider) and Hamad Medical Corp (Qatar's leading hospital system).

The company recently won its biggest contract, with the Hospital Authority of Hong Kong, which manages 43 public hospitals.

Worth $15 million over five years, the deal was won from a "Melbourne Cup" field of contenders.

"They take their time and do tremendous due diligence," Mr Jackman said. "It was an amazing process and we were proud to be chosen."

In November, Virginia-based not-for-profit hospital group Sentara awarded Mach7 an expanded contract to modernize five separate PACs. In all, Mach7 claims 59 blue chip clients.

History

Mach7 was founded in 2007, by image workflow expert Ravi Krishnan, who has held roles at GE Healthcare and Agfa Healthcare (Mr Krishnan remains Mach7's chief strategy officer).

Mach7 launched its first product in 2012. In March 2016 the company merged with the ASX-listed diagnosis house 3D Medical - a reseller of Mach7's products - in a share deal.

3D Medical was formerly known as Safety Medical, but in 2012 dropped its safety syringe business to go gold mining in Brazil, which didn't pan out, and in 2014 said it would acquire 3D Medical for a backdoor listing to pioneer three-dimensional printing and holographic projection technology, completing the deal and name change to 3D Medical in early 2015.

In June 2015, 3D said it had developed a 3D-printable titanium joint for jaw surgery, which had been implanted in a Melbourne patient, but then "merged" with Mach 7 to raise $10 million for imaging and changed its name to Mach7.

A turnaround guy, Mick Jackman clocked on as CEO in September last year, having held roles as CEO for the Americas at GE Healthcare and as head of Carestream Health (formerly Kodak Health).

Mr Jackman said while 3D printing was a good idea, management saw broader prospects in enterprise imaging platforms.

"The first thing I did as CEO was clean it all up," he said. "All the profits were from the Mach7 side anyway."

Board member David Chambers was former CEO of Pro Medicus (more on them later) and Visage Imaging.

Chief financial officer Jenni Pilcher was Australian CEO at 3D Medical and has also been chief numbers woman at Mesoblast and Alchemia.

Shifting strategy

Mach7 has undergone a strategy shift from catering for large academic and hospital groups and imaging centres, to local and regional hospitals (such as El Camino in Mountain View, California).

"We will continue to target this segment of the US market as facilities of this size tend to have a more streamlined purchasing and decision-making process which shortens the buying cycle," Mr Jackman says.

Mach7 has also evolved to supplying the PAC systems (the diagnostic applications) rather than just the vendor neutral archives. The enterprise imaging market is worth about $US2 billion today and is forecast to double to $US4 billion by 2024.

Compare and contrast

Mach7's global rivals include the rebirthed film companies Carestream (Kodak), Agfa, Fujifilm and medical equipment suppliers such a GE Healthcare, Siemens and Philips.

The Adelaide-based, Alcidion (market cap $35 millions) offers Miya (pronounced Myer), a platform to consolidate data from multiple repositories and apply the 'smarts' to that data through artificial intelligence and algorithms.

In effect, Miya alerts doctors to the information they really need to know.

Alcidion this year acquired the private MKM Health, which also plays in the health informatics sector, for $12 million.

Then there's the enterprise imaging and radiology information systems house Pro Medicus, which has also focused on the US with its home-grown technology.

Last year, Pro Medicus made a $12.74 million profit on revenue of $35 million. Its market capitalization? More than $1 billion.

While Pro Medicus has more of a focus on the imaging (PACS) side, it competes with Mach7 in several sectors.

Financials and performance

Harsh readers of the 2017-'18 results might conclude that Mach7 is going backwards at, well, a Mach 7 pace, given revenue slipped 16 percent to $8.6 million.

Closer examination shows turnover for the US gained 13 percent to $7.64million - the lion's share of total revenue of $8.64 million.

The average was brought down by the Middle Eastern contribution falling 75 percent to $661,299, the result of a "particularly large" contract in the previous year.

That's ok, then.

The US revenue mainly derived from management services - helping clients migrate their patient management system - than software sales itself.

The company prides itself on not capitalizing software development costs, or any other expenditure for that matter.

As a result, it's taking longer to reach break-even profitability.

"However it also means that future profits will be maximized and will not be impacted by costs that have been incurred in previous years," Mr Jackman says.

The company claims contracted and recurring revenue of $5.3 million and a pipeline of more than $100 million. The recurring revenue has grown at a compound annual 24 percent over the last five years.

Mach7's reported loss of $4.94 million compares with a $17.6 million deficit in 2016-'17, a $12.62 million shortfall in 2015-'16, a $6.9 million loss in 2014-'15 and a $302,000 loss in 2013-'14.

Mach7 had only $1.8 million in the kitty at the end of the September quarter, but in late November raised $3 million in a private placement at 20 cents a share (an 11 percent discount).

The raising attracted several new investors including Australian Ethical, thus bringing a halo of goodness to the register.

Dr Boreham's diagnosis:

Mach7 is in a sweet spot, considering the $100 million-plus of revenue that's almost guaranteed to come through the door.

Given the large licks of development costs have been expensed, we expect modest profitability to occur sooner rather than later.

The sterner interpretation is that Mach7 has no excuse to keep posting steep losses year after year.

Management expects revenue to flow in the next 12 to 24 months from distribution deals in the Latin America, Europe and Britain.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He has never had an x-ray, magnetic resonance imaging or positron emission tomography, but spends much of his time scanning the horizon for blue sky.