Biotech Daily

Friday December 13, 2019

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Medadvisor

By Tim BOREHAM

ASX code: MDR

Share price: 31.5 cents

Shares on issue: 245,509,182*

Market cap: $77.3 million

Chief executive officer: Robert Read

Board: Peter Bennetto (chairman), Robert Read, Joshua Swinnerton (founder), Jim Xenos, Sandra Hook, Jeff Sherman

Financials (September quarter 2019): receipts $2.28 million, cash burn $2.73 million, end of quarter cash $2.33 million**, estimated current quarter outflows $5.69 million

Major identifiable holders: HMS Holdings 13%, EBOS Group 11%, Wavey Industries (Josh Swinnerton) 10%, Kojent Pty Ltd (Jim Xenos) 8%, Regal Funds Management 7%, Sigma Company 2%

***** Post one-for-seven share consolidation
****** the company subsequently raised $17 million in a placement in October.

Did the doc say to take one pill twice daily, or two tablets once daily?

When it comes to correct medication, it's easy to get it wrong. Because of misreading instructions, forgetfulness, laziness or nasty side effects Australians aren't especially good at taking their meds in the manner intended.

According to Medadvisor chief Robert Read, in Australia 60 percent of patients don't complete their medication properly. The problem is even worse in the US, costing 120,000 lives annually.

Locally, Medadvisor's answer to the problem has been its core product Plusone, an internet cloud-based platform that streamlines patient communications, ordering and services workflow. Integral to the product is the Medadvisor mobile telephone application, which is free to patients and allows for the medication reminders and - when appropriate – on-line click-and-collect script re-ordering.

There's also a variant service for general practitioners which is largely for patient bookings, but can also be used to renew patient prescriptions and manage nursing home scripts and Medadvisor delivers health programs on behalf of pharmaceutical companies and is involved in recruiting for clinical trials.

In October, Medadvisor attracted a new shareholder, the Nasdaq listed HMS Holdings Corp, based in Irving, Texas, which stumped up for $11 million of a $17 million placement to become a 13 percent shareholder.

As part of the deal, HMS chief financial officer Jeff Sherman joined the Medadvisor board.

"It was fortuitous they were prepared to come in at a premium," Mr Read says.

Meeting an urgent need

Medadvisor was founded in 2012 by local software engineer Josh Swinnerton, after watching his mother (a Parkinson's disease sufferer) trying to manage 10 daily medications.

The company listed in December 2015 via the shell of Exalt Resources, raising $5 million at three cents apiece. Medadvisor now has a reach to 3,300 pharmacies - 55 percent of the local market.

In November, the company signed a deal with logistics company Kings Transport to deliver medication to patients' homes, with Medadvisor receiving a cut of the delivery fee.

In October, the company broadened an existing deal with Chemist Warehouse, extending a text message reminder service to using the chain's patient population for healthcare programs. The aggressive Chemist Warehouse is now the country's biggest pharmacy chain, with 450 outlets. Other chemist groups on Medadvisor's books include Amcal, Guardian, Terry White, Pharmasave and National Pharmacies - pretty much the full gamut of apothecary chains.

HMS: the prescription for growth

Just as importantly as HMS taking a cornerstone holding in Medadvisor, HMS becomes the preferred partner to distribute patient health programs in Australia and the US.

The rise of generic medicines means US drug companies are not so interested in health programs, because they end-up promoting their competitors. But funnily enough the health insurers - the ones who pay - do care.

In the US, HMS acts for more than 325 health insurers and that opens a new market for Medadvisor.

Here, the digitally delivered programs are done on behalf of the drug companies, with government funding via the Sixth Community Pharmacy Agreement between the Federal Government and the Pharmacy Guild of Australia (the chemists' union).

HMS is also involved in patient education as well as claims management and claims adjudication. "They are quite diversified in their services," Mr Read says. "It's a really big deal and a big opportunity."

Forging a path to the US

Earlier, the company signed an exclusive US distribution deal with Adheris. With a tie up with 26,000 pharmacies - roughly half of the total US drugstores - Adheris strips patient data to sell health programs to the drug companies.

"It was a really important step to take health programs and health literacy to millions and millions of patients," Mr Read says.

While Adheris is a $US3 billion ($A4.4 billion) Nasdaq-listed entity with $1 billion of turnover and a 25-year pedigree, somehow it had "forgotten" to develop a digital strategy. "That's why they looked to us," Mr Read says. "Their thinking was that if you could do it in Australia, you could do it in the US."

In effect, Medadvisor is inverting its approach used in Australia. Here, a pharmacy pays a subscription to the cloud-based platform. But in the US the company will start with the health programs and then move to the pharmacy cloud subscription model.

Mr Read says there's a dichotomy in the patient marketing spend between the US and Australia. Here, it's more about a sales force selling to the doctors, with only about 10 percent of marketing spend directed at patient education.

In the US, the patient spend is more like 60 percent and there's a simple reason: drug companies are free to flog prescription drugs in flashing neon lights on billboards. "They are pre-wired for spending on patients," he says. "Also, drug prices are higher and the population is bigger. We can make a really successful business with digital health and medicine programs."

Adheris' footprint is bigger than that of the biggest drugstore chain, Walgreens. Mr Read describes the profit-sharing arrangement as nuanced but sums it up as such: "we buy access to their network and they buy access to our technology."

Finances and performance

Medadvisor increased revenue by 25 percent to $8.2 million in the 2018-'19 year, but also reported an $8.2 million loss. The company also claims it generated "core" earnings before interest, tax, depreciation and amortization of $2.5 million, 33 percent higher.

In the September quarter the company recorded $2.28 million of receipts and burned $2.73 million of cash.

Of the full-year revenue, 84 percent was gleaned from the Plusone Australian business (pharmacy subscriptions), with the chemists on average paying $195 a month for the service.

A further 14 percent of revenue was derived from health programs and clinical trial enrolment.

Mr Read says the US business should accelerate rapidly as it comes online.

"In five years, we can see the US as our biggest business, not that Australia will stop growing," he says. "We know the opportunities are significant, we just need to execute appropriately."

The Chemist Warehouse deal is also estimated to be worth $5 million in revenue over three years.

Adjusted for a seven-for-one share consolidation the company has just undertaken, Medadvisor shares over the last 12 months have traded between 22 cents (December 20, 2018) and 42 cents (May 3 this year).

While HMS is the top dog shareholder, EBOS Group and Sigma Pharma also hold around 10 percent and two percent respectively.

The trans-Tasman EBOS owns the Terry White, Chemmart, Pharmacy Choice and Good Price Pharmacy Warehouse banners, as well as the Symbion full-line drug distributor. Sigma owns the Amcal and Guardian chains and its eponymous drug distributor.

And the rest of the world?

Medadvisor is cautious about Asia, but late last year forged a tie-up with drug giant Zuellig to enter the Filipino and Malaysian markets, "with other markets to follow".

The traditional joint venture approach involves profits being split down the middle.

"Asia is not one we would rush into ordinarily, it's hard to understand," Mr Read says. "But we were approached by Zuellig, who bring a hundred years of experience and immense goodwill."

Initially the company is focused on the easier markets of Malaysia and the Philippines.

In Malaysia, the company inked a joint venture with Zuellig subsidiary Klinify, which provides access to 900 doctors and two million patients. In Malaysia, general practitioners dispense the diagnosis as well as the meds (hopefully in that order).

“The (Asian markets) are sizeable in their own right but they come with complexity, it’s one step at a time,” Mr Read says.

In Britain, meanwhile, Medadvisor won its first client in August: the second tier Day Lewis pharmacy chain. Day Lewis, which has 270 outlets, will provide an own-branded version of Medadvisor’s consumer application for medication ordering and management.

Medadvisor will charge recurring licencing fees as well as a per-text fee for patient reminders.

Dr Boreham’s diagnosis:

Medadvisor is at that classic juncture where it’s bleeding quite a bit of dough, but would be in the black if it shelved its expansion plans.

“We have a high degree of flexibility because our core domestic business is profitable,” Mr Read says. “But [opting not to grow] would be madness while we have such market validity.”

The way Mr Read sees it, setting up in a new geography entails a “market entry tax” in terms of the cost of setting up new systems. But the more the company does elsewhere, the more it can leverage past expenditure.

Medadvisor is clearly a company going somewhere - and it has heavyweight backing to ensure it lasts the journey financially. “We have been busy,” Mr Read says.

But as with all rapidly expanding companies, the key is to staunch those bottom-line losses and become consistently profitable in a timely manner.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Happily, he’s not on any medication but needs constant reminding to put out the rubbish on bin night.