



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: OBJ Limited

By **TIM BOREHAM**

ASX Code: OBJ

Share price: 3.9 cents; **Shares on issue:** 1,805,462,635; **Market cap:** \$70.4 million

Executive director: Jeff Edwards

Board: Glyn Denison (chairman), Jeff Edwards, Dr Chris Quirk, Steven Schapera.

Financials (2016-'17 year): revenue \$2.0 million (up 29 percent), net loss \$5.5 million (up 56 percent), cash \$5.4 million (down 26 percent), accumulated losses \$33.2 million.

Identifiable shareholders: Jomina Pty Ltd 1.56 percent, Virtus Cap Pty Ltd 1.53 percent, JEB Holdings 1.52 percent, Chris Quirk 1 percent, Glyn Denison 0.87 percent, Peter Fedele 0.87 percent, Jeff Edwards 0.72 percent.

Frankly, OBJ's core technology of using magnetic fields to repulse molecules sounds a little kooky.

Maybe it's just because descriptions of 'microarrays' and 'magnetic inductors' remind your columnist of Peter Brock's 1980s-era Polarisers.

As non-millennials may recall, the late motoring champ claimed the under-the-bonnet black boxes - containing crystals and magnets - improved performance by aligning the molecules of a vehicle.

All the device polarized was Brock's relationship with Holden. In stark contrast, OBJ's intellectual property is endorsed by Procter & Gamble (P&G), the world's biggest maker of skin cosmetics.

And royalties are flowing.

"The biggest brand in skincare in the world came to us to help them develop their first device-based product," says OBJ founder and head honcho Jeff Edwards.

The OBJ way

Broadly, OBJ is the world's first transdermal delivery company to use physical science rather than chemistry to improve the performance of products that are delivered through the skin. This avoids the need for costly reformulation or new ingredients.

We'll parrot the company on this bit:

"Complex 3D magnetic fields produced by low-cost microarrays or powered magnetic inductors have the ability to repulse certain molecules to enhance diffusion and to alter the permeability of biological and non-biological agents."

In OBJ's case, it's about allowing the skin to absorb therapeutic and cosmetic ingredients more efficiently. OBJ also has a separate clinical program to develop a skin-based delivery system for pain-relieving drugs and is also furthering oral healthcare, surface hygiene and homecare applications.

A brief history

Mr Edwards discovered the science while working in orthopaedics. "I observed some odd behavior in terms of skin permeability in response to certain treatments involving loss of local blood flow," he says.

Mr Edwards teamed with dermatologist Dr Chris Quirk, Curtin University pharmacy professor Heather Benson and protein scientist Dr John Snowden to form International Scientific Pty Ltd. The company was then vended into the listed shell of OBJ Ltd in 2004.

Thirteen years and \$25 million later, the micro-arrays (essentially coded magnetic plastic materials) have been used in four commercial products launched so far by P&G, under its Olay and SK-II skincare brands.

In March last year, P&G launched a magnetic eye wand in Japan, under its prestige SK-II brand. The wand is now also for sale in China and South East Asia.

According to the ads, the "innovative bipolar magnetic micro array targets and pushes the (P&G branded eye cream) into the skin with three times greater absorption than just using your finger."

The wand will deliver "younger more beautiful eyes" within 10 days.

“We knew it worked in clinical trials but the unknown was how it would be adopted by P&G’s consumers,” Mr Edwards says.

As it happened, the body-beautiful crowd loved it and now a variant of the wand has been launched under P&G’s mass-market Olay brand.

The wands are initially being sold into several Asian markets.

P&G has also launched a variant called the SK-II Magnetic Booster, a whole-of-face applicator.

Magnemask, an overnight face cream was launched under the P&G’s Olay brand in China on August 17. A rollout in the US, the UK and Australasia is expected by the end of the year.

To date, the P&G agreement relates only to OBJ’s magnetic microarray technology. But in April this year the parties agreed to commercialize OBJ’s second technology platform for other skincare applications.

Rumors that Keith Richards has been recruited as a brand ambassador are entirely unfounded.

Bodyguard to the rescue

OBJ’s greater fortunes could well lie with its Bodyguard clinical program.

The wearable patches administer a non-drug, pain-relief ingredient directly to the site of injury - commonly the knee - and is more effective than orally delivered drugs.

OBJ conducted an initial clinical efficacy trial at Perth’s Curtin University, followed by a second clinical study at the University of Queensland. A third trial is currently underway at Curtin University, aimed at demonstrating the ability of Bodyguard to deliver common anti-inflammatory drugs better than existing drug-in-adhesive technology.

This third trial will be partly funded by the Federal Government under its Innovation Connections Grants Scheme. Yep- we hadn’t heard of this one either.

Cleaning up with OBJ

In addition, OBJ has also been developing new surface hygiene technology that increases the kill rate of existing antiseptic compounds without elevating their toxicity.

“This is all about making better and safer use of the chemistry we already have in the fight against bacterial infection and contaminations,” Mr Edwards says.

“This new technology is currently under evaluation in the UK by one of the world’s largest hygiene companies.”

Financials

The tie-up with P&G is a high-volume, low-margin affair with OBJ receiving a royalty on sales of three to five percent. This is pretty standard for the sector.

With the product range and sales geographies expanded next year, it's reasonable to expect revenues to well exceed last year's tally of a smidge under \$2 million.

But OBJ itself has little visibility on its forward revenues because P&G likes to keep data close to its smooth manicured chest.

With \$5.7 million of cash in the kitty, OBJ does not expect to have to raise capital. With North American revenue flowing from next year, management expects a "greatly improved result" this year.

Time for a valuation makeover?

OBJ shares have traded between 0.4 cents and 10 cents over the last decade.

Given the company's progress, the current lowly valuation seems unjustified. But who said life was fair, apart from the idle rich?

Chastened by the poor share price, management figures eschewed a tranche of performance shares they were entitled to.

But the auditors had already recognised the \$2.5 million impost as an expense. Reversing it resulted in the full-year loss being revised down to \$3.04 million.

Dr Boreham's diagnosis

The company's IP is not the easiest to understand, but with P&G giving the AOK we say "all the way with OBJ".

An upcoming acid test is whether a big pharma backer emerges for Bodyguard.

Through its listed life, OBJ has had the same three-man board. Its ranks have now been bolstered with the appointment of Steve Schapera, who built the Becca cosmetics brand before selling it to Estee Lauder for squillions.

Mr Denison intends to retire next year. Given the target market, is it time to install a woman on the board who actually uses the unguents in question?

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Not even from the Ponds Institute.