



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Painchek

By TIM BOREHAM

ASX code: PCK

Share price: 5.5 cents

Market cap: \$62.0 million

Shares on issue: 1,126,804,799

Financials (June quarter 2021): receipts \$107,000*, annual recurring revenue \$5.57 million, operating cash outflows \$483,000, cash \$11.4 million, quarters of available funding 24

* Government grant revenue

Chief executive officer: Philip Daffas

Board: John Murray (chairman), Mr Daffas, Ross Harricks, Adam Davey

Identifiable major shareholders: Peters Investments 10.02%, J+E Consulting 3.28%, Kreshnik Hoti 3.28%, Mustafa Abdul Wahed Atee 3.28%, Philip Daffas 1.8%.

Not many healthcare providers can claim a 60 percent share of any one market, but that's indeed the penetration of Painchek's automated pain assessment tool in the local aged-care sector.

Those in the know might protest that Painchek enjoys an uncommercial leg-up, in that the Federal Government doled out a \$5 million grant for a trial program in 2019.

While Canberra's cash currently accounts for most of Painchek's revenue, CEO Philip Daffas argues the company is far from a protected species: as the funding rolls off, most of the subsidized beds are staying on as full-paying clients.

The company sells to 410 aged care providers, accounting for 1,569 facilities and 129,189 beds (as of June 30).

The Painchek application is also approved in the UK, the European Union, Canada, Singapore and New Zealand (where it's just started selling).

"We are rapidly becoming the most commonly used clinical tool in aged care in Australia," says Mr Daffas. "We were growing prior to the government grant and we have continued to grow since."

From Minquest to Painchek via Epat

Painchek evolved from a company called Epat Technologies, which was vended into listed gold explorer Minquest in 2016.

Painchek was founded in 2010, based on Curtin University intellectual property.

Mr Daffas worked for 30 years in diagnostics, with senior roles at Roche in the UK and Germany.

He joined Cochlear in the mid-1990s and headed up the Europe business - and then global marketing - for the hearing implant maker.

In the aged-care space, no one can hear you scream

Painchek is an algorithmic-based device to measure the level of pain experienced by non-verbal older people and infants. The cloud-connected device comes up with a pain score.

Pain assessment is "profoundly difficult" for two groups: those with dementia and cognitive impairment who have lost their ability to self-report pain.

"Pain assessment is hard at the best of times, but extra hard when patients can't verbalize pain," Mr Daffas says.

This score is based on 42 checkpoints across six domains including facial expression, behavior, body movements and, when possible, vocalization.

The smart-phone-based device assesses and scores pain levels in real time (about three seconds) and then uploads the results to the internet 'cloud'.

The ability to measure and log the pain scales means that carers can access a more meaningful dashboard that records changes in the patient's pain levels over time.

Dear Abbey, no offence ...

The Painchek application supplements a traditional measure known as the Abbey Pain Scale. This test is proven and well-validated, but it is manual and prone to subjectivity. The nurses or carers also require training.

But there are no hard feelings about Painchek coming up with a better mousetrap, given the scale's inventor, Dr Jennifer Abbey is an adviser to the company.

In March, the company also recently won local Therapeutic Goods Administration (TGA) and European (CE mark) approval for a newer version called Painchek Universal, which can be used on all patients (not just non-verbal ones).

In the US, the company has lodged an approval application under the Food and Drug Administration's de novo process, which is for unique but low-risk products.

"We're about to start clinical trials, which will probably take six to 12 months of work," Mr Daffas says.

Not taking revenue for grant-ed

In 2019, the Federal Government extended a \$5 million grant to fund 100,000 beds for patients with dementia or cognitive impairment, with the contract then extended to June 2021.

At last count, Painchek had 32,349 beds operating under the scheme, with 82,346 paid, but yet to come online. Painchek has a further 14,494 beds subject to normal commercial contracts. Mr Daffas notes that most contracts are for two to three years, with only the first-year government funded.

The company increased paid beds by 10,000 during the June quarter and expects 15,000 to 20,000 for the whole year, which indeed should more than cover attrition.

Mr Daffas believes attrition will be minimal because it takes time and effort for the facilities to implement Painchek, so they won't dump it in a hurry.

But what's more, the application is bloody helpful (our words).

Seeing you asked ...

So, what are the benefits?

An assessment from accounting firm KPMG suggests a meaningful decline in the use of psychotropic medication, because the carers were able to pinpoint the behavior as pain related.

“Sometimes they realize the perceived pain isn’t as bad as they [the patients] think it is,” Mr Daffas says. “So rather than giving pain medication they can use things like heat packs.”

The company works with all the care management systems in Australia, so that the Painchek data can be integrated into broader healthcare information systems.

The tests, by the way can be carried out up to three metres from the patient, a “social caring distance”.

Suffer the little children

The flipside of having almost two-thirds market share is that the further upside in the specific aged care market is limited. But not to worry. As we’ve mentioned there’s the universal application, which applies a numerical score to pain which is able to be verbalized.

Painchek is also pursuing expansion plans based on the pre-verbal kids’ market and hospital and home care usage. The company expects to launch the children’s app, Painchek Infants, by the end of 2021.

Mr Daffas estimates there are around 140 million births a year, 60 million of which are to first-time parents. These novice mums and dads face the perennial dilemma of whether the howling is because baby is hungry, or in pain.

And surely, it’s your turn to get up this time?

All up there are 400 million children aged between zero and three, which makes for a bigger market than aged care (as are the hospital and home care sectors).

Geography wise, Painchek has mounted in assault on the capacious British aged care market, where it has signed up two content management system (CMS) providers with one more in train.

Painchek first entered the UK market in late 2019, just as a certain virus in Wuhan was creeping out of the wet market.

Currently in the UK, Painchek covers 1,000 beds - a tiny fraction of the addressable market of 450,000 patients - with 1,500 contracted and likely to be deployed in the current quarter.

The pandemic stymied progress, but the company did well with remote sales and training delivery.

UK sales have since returned to pre-pandemic levels.

“We are seeing the UK opening up and good sales potential for the next two quarters,” Mr Daffas says.

The company has carried out home care pilot programs in Canada and the UK.

In the local disability space, Painchek is conducting trials with two providers under the National Disability Insurance Scheme.

The company also has Perth-based studies with the Ramsay Hospital Research Foundation, covering frail patients at Perth's Hollywood Hospital. A separate dementia/cognitive impairment study at Joondalup Health Campus is also in the offing.

In Europe, Painchek has a research collaboration with Philips Healthcare covering patients at risk of delirium.

Finances and performances

Painchek's June quarterly report shows somewhat uninspiring revenue of \$107,000, which denotes the latest instalment of the Federal Government grant.

As a measure of revenue through the door, but not yet recognized, annual recurring revenue (ARR) is the most closely watched number.

As of June 30, the company had a potential ARR of \$5.57 million, (the Government program ended on May 31). This ARR is 109 percent higher than a year previously.

In the June quarter, the company added 36,682 beds on a net basis, compared with 45,512 for the entire 12 months to June 30.

Having executed a \$10 million capital raising last year, the company held cash of \$11.4 million and is debt free.

Sadly, Painchek's progress is not being reflected in the share price, which has declined 57 percent over the last year to a 12-month low.

The stock whooshed to a high of 35 cents in September 2019, on the back of the Federal grant. They have traded as low as 3.0 cents (in April 2019).

Dr Boreham's diagnosis:

A simple story at its core, Painchek is one to shout about as it expands its product reach into the other markets and geographies.

Home care, in particular, could be 10 times the size of the \$300 million-a-year aged care market (of which Painchek has penetrated a mere one percent).

The lack of helpful vocalization is closely linked to dementia, which currently affects 50 million older people now and is expected to afflict 75 million by 2025.

Dementia patients account for 50 percent of aged care occupancies and 30 percent of hospital admissions, which also gives a feel for the size of the latter market.

Mr Daffas says rivals will emerge, but there's enough patent protection to defend the company's 'first to market' status.

"We have spent four years getting to market," Mr Daffas says. "If someone else wants to go down that route there are significant hurdles."

Targeted for 2023, the FDA approval will be a real game-changer.

"Our journey has had significant progress but has only just begun," Mr Daffas says.

"I believe that in the next 12 months the Painchek journey will be transformational."

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. We eagerly await the use of Painchek to determine the real level of pain - or staging - exhibited by some of the world's leading soccer players.