



Biotech Daily

Friday August 20, 2021

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Rhinomed

By TIM BOREHAM

ASX code: RNO

Share price: 32 cents

Market cap: \$81.2 million

Shares on issue: 253,809,132

Financials (June quarter 2021): revenue \$951,000, cash burn \$1.52 million, cash \$2.4 million, quarters of available funding 3.2*

* Includes \$2.5 million working capital facility provided by two directors

Chief executive officer: Michael Johnson

Board: Ron Dewhurst (chair), Mr Johnson, Brent Scrimshaw, Prof John McBain, Dr Eric Knight

Identifiable major shareholders: W Whitney George 41%, John McBain 17.7%, Ron Dewhurst 5.2%.

We're learning more about the Covid-19 pandemic the more it hangs around - and some of the findings are startling indeed.

Take the recent studies by Colgate-Palmolive, which suggest that certain toothpastes and mouth washes can temporarily reduce the amount of severe acute respiratory syndrome coronavirus-2 (Sars-Cov-2) - the virus that causes Covid-19 - in your mouth.

“We’re working hard to figure out how this initial research translates into temporarily reduced virus levels in the mouth, and what this may mean for you,” says Colgate’s website.

The company (or its lawyers) hastily add that there’s no evidence the products can treat or prevent Covid-19 or alleviate its symptoms.

But the findings DO imply that saliva-based Covid tests can be useless - at least in the case of those with decent oral hygiene.

So much for the Colgate ring of confidence.

A better way to test

Such testing deficiencies are music to the ears of nasal device maker Rhinomed, which has tweaked its existing products as a Covid testing swab, called Rhinoswab.

In its first commercial order, New South Wales Health has asked for one million of them to be delivered to the plague-stricken state.

“We are thrilled to have an Australian government support local innovation,” says Rhinomed chief Michael Johnson - and he’s polite enough not to add that that’s a rare thing.

The Rhinoswabs are an alternative to the so-called long-handled ‘brain stab’ nasal and saliva swabs, used in the polymerase chain reaction (PCR) tests. These are the ones that need to go to the lab for analysis, with results taking between a few hours and a few days, depending on the workload.

The Rhinoswabs have regulatory clearance in the US, Australia and Europe as a class-one device.

A nose for a good product

The Rhinoswabs are low-tech, plastic clip-like thingies that are inserted into the nostrils and collect the requisite snotty stuff from both nostrils.

The devices are a clinical iteration of its original intra-nasal device called the Turbine, which expands the nostrils to potentially provide more oxygen for enhanced athletic performance.

The Mute - a low-cost treatment for snoring - followed next.

Mr Johnson says the company had always been about developing a platform technology suited to diagnostics and drug delivery.

He was goaded into action when his father, who is in a Melbourne nursing home, complained of “being attacked by a nurse who stabbed me in the head with a straw”.

Mr Johnson senior was, of course, referring to the standard Sars-Cov-2 test. “That gave me the idea,” Mr Johnson junior says.

The company worked closely with its industrial design team and enlisted parties including the Doherty Institute for validation testing.

The Doherty testing found “the eluted volume from Rhinoswab was found to be comparable to the commercially available [swab] when artificially dipped into a neat saliva solution and spiked with inactivated Sars-Cov-2 at both high and low virus burdens”.

New South Wales Health carried out its own comprehensive evaluation before placing the order.

Abolishing the Covid testing queue

Mr Johnson is “infuriated” when he sees a snaking queue at a Covid testing station because they are unnecessary - at least if Rhinomed has its way.

With Rhinoswab, one medical worker could overlook 10 or so patients at once, because the testees can put the device on themselves (the devices can only go on the snoz one way, so there’s no room for error).

“The medical workers can observe, but don’t need to go near the patient and it has tele-health applications as well,” Mr Johnson says.

He says that within 15 seconds, the device yields a sample around 1.4 to 1.5 times greater than the standard swab. After two minutes it’s 1.8 times more.

Test efficacy is more relevant for the rapid tests, because the PCR tests amplify the viruses present. “With rapid antigen testing there’s a direct relationship with the size of the sample and the accuracy of the test,” Mr Johnson says.

Rapid tests are not approved in Australia - not yet anyway - but are available over the counter in the US and the UK. In Germany, Aldi stocks them alongside the mince burgers and violins.

Don’t forget the kids

One feature of the Delta variant is that children are not as immune from the virus as they were with the first iteration.

Rhinomed is looking at how its swab technology can be adapted for kids’ noses, which differ to adult proboscises, physiologically speaking

“Kids are undertested,” Mr Johnson says. “They hate swabs and are potential super spreaders.”

It’s important to have an easy way of testing kids because they get colds on average twice as much as adults – six to eight times a year. The ability to call out runny noses as a standard snot attack rather than Covid will become increasingly important.

Meanwhile ...

Sales of Mute and Turbine are bubbling away, but in the US have been affected by a downturn in chemist patronage, with foot traffic falling in mid-2020 by as much as 70 percent.

“People were getting scripts but are not browsing,” Mr Johnson says.

The company’s US reach has been bolstered with an expansion through drugstore chain Rite Aid and grocery chain Giant Eagle. In early 2020, the company appointed a head of US business, John Ende, as well as a marketing manager, Kirk Hodgdon (former marketing director for nasal strip purveyor Breathe Rite).

“I thank my lucky stars we did it before the pandemic took off, because I haven’t been back there since January last year,” Mr Johnson says.

Locally, the company is getting good sales traction via Priceline and the Amazon electronic-commerce giant.

Finances and performance

Rhinomed chalked up \$3.9 million of revenue in the year to June 2021, 12 percent higher than the previous year.

June (fourth) quarter revenue rebounded 53 percent to \$915,000.

While Mute and Turbine volumes are recovering - especially in the lock-down free US - the swabs are expected to contribute significantly to future revenues. The New South Wales Health deal is equivalent to 25 to 35 percent of Rhinomed’s turnover last year.

Mr Johnson says Rhinomed aims to match the pricing of the standard swabs, of \$US1.00 to \$1.20 each. So, one doesn’t have to be a financial guru to work out the NSW Health deal is worth \$1.4 million to \$1.64 million in revenue.

Meanwhile, Rhinomed shares traded at a low of 7.5 cents a year ago, but doubled to 40 cents after the New South Wales Health news on August 11 this year.

The company’s ASX roots go back to 2013, when it morphed from the (now) unrelated Consegra Group (previously Helicon).

Join the Victor Kiam club

Rhinomed has developed quite a following from deep-pocketed parties who liked the product so much they bought (into) the company.

The latest is Glaswegian-born Prof John McBain, who founded the Melbourne IVF chain before selling it to private equity interests in 2008 for a reported \$200 million. On a whim, Prof McBain bought a packet of Mutes at a chemist and the effect was evident after the first night.

Prof McBain was one of a handful of original investors in buy-now-pay-later provider Afterpay. At the time the shares were 20 cents; this month US fintech Square lobbed a \$126 per share offer.

Prof McBain has a 17 percent stake in Rhinomed. He joins the high-profile New York based fund manager W Whitney George, with a 41 percent stake.

Rhinomed chairman and experienced financial services executive Ron Dewhurst accounts for a further five percent or so. Mr Dewhurst and Prof McBain also kindly stumped up \$2.5 million for a working capital facility.

The clever country loses its smarts

With the New South Wales Health order in hand and presumably more to follow, Rhinomed's biggest issue becomes where to make the devices. Current they're produced in a factory at Keysborough, in Melbourne's southeast.

Rhinomed applied for Federal funding under the Modern Manufacturing Initiative (MMI), but no largesse was forthcoming for the expansion, costed at \$19 million over three years and creating 119 jobs. The Mutes and Turbines are made in China and the Rhinoswabs look like being made offshore as well.

"Government support would have enabled us to manufacture both the swab and consumer health products here in Australia," Mr Johnson says.

He notes that the private Queensland-based Ellume was awarded a \$300 million contract from the US Department of Defence to move the manufacturing of its rapid diagnostic test to the US.

Dr Boreham's diagnosis:

While it's dangerous to align a company's fortunes with a pandemic that eventually will abate, the demand for quick, ongoing testing is likely only to increase.

To date, two billion Covid tests have been carried out in the last 18 months, 26 million of them in Australia (roughly one for every man, woman and child).

Mr Johnson opines that just as the World Trade Centre attack two decades ago fundamentally changed airport security, the pandemic will instill regular testing at airports, workplaces and other venues for years to come.

He also expects the swabs will help drive the existing business and other muted sidelines, such as drug delivery.

Why?

“It socializes people to the concept of putting something up their nose.”

Of course, some Sydney socialites are well familiar with that concept if you get the gist ...

Nonetheless we reckon Rhinomed’s monied backers have sniffed out something promising.

As usual, it’s a case of building sustained revenue while not running out of cash in the meantime.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. One could say he nose nothing.