



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Rhinomed

**By TIM BOREHAM**

**ASX code:** RNO

**Share price:** 17 cents; **Market cap:** \$24.1 million; **Shares on issue:** 141,933,281

**Chief executive officer:** Michael Johnson

**Board:** Ron Dewhurst (chairman), Mr Johnson, Brent Scrimshaw, Dr Eric Knight

**Financials (December half):** revenue of \$1.3 million (up 77%), loss of \$2.9 million (previously \$1.9 million loss), net tangible assets 3.3 cents (up 20%), cash of \$3.8 million (up 200%)

**December quarter:** revenue \$618,000 (up 132%), estimated March quarter cash outflows \$1.3 million.

**Identifiable major shareholders:** W Whitney George 23.4%, Kroy Wen (Ron Dewhurst) 6.6%, Paul H Stephens and Eleanor M Stephens 6.74%, Thirty Fifth Celebration (John McBain) 5.68%.

"We're locked and loaded," Rhinomed CEO Michael Johnson says of the nasal obstruction buster's plans to deepen its US penetration with a new vaporizer product tackling nasal congestion and insomnia.

It's apt that he deploys a military analogy: the company discovered that its Mute devices are being used by US troops in Afghanistan and Iraq, who had been buying them off the internet.

The Mute is a low-cost treatment for sleep apnoea (snoring).

“I had no idea. They found us, not the other way around,” Mr Johnson says. “We are now working on how to develop a formal relationship with the US military.”

Just as soldiers march on their stomachs, they also need a good night’s sleep. “If you have one person snoring in a barracks they are disrupting everything,” he says.

## **From Turbines to Mutes**

The Rhinomed story now has much more of a clinical flavor as the company evolves from its original offering, Turbine, to enhance the performance of athletes such as cyclists, without fearing a visit from the anti-doping police.

Attached to the nose, Turbine is a plastic stent-like device that expands the nostrils to allow-in more air, and hence, oxygen to the brain.

While advocates such as Chris Froome raved about the Turbines they never really gained sales traction. Rhinomed then turned to the sleep apnoea market with the Mute which, truth be known, is pretty much the same as the Turbine but made from softer nostril-friendly material.

Under long-serving CEO Mr Johnson, the company has plugged away on building distribution channels with the perseverance of a long-distance runner.

As of December, Mute was stocked in 9,000 US outlets, compared with 4,000 in June. Approved as a class one medical device, Mute is also stocked in 2,000 outlets across Australia, New Zealand, the UK and Taiwan.

The Mutes, which sell for about \$US25 for a pack of three, are meant to be discarded after 10 uses. But like a wiry toothbrush, they are being used for longer than that, which is not ideal.

## **Move over Vicks Vaporub**

Due to be launched in the US in late May or June, Rhinomed’s new product emits constant vapors from a reservoir of soothing elements.

These are a combination of eucalyptus, menthol and peppermint for sleep and lavender, chamomile and valerian for congestion (valerian is a flowering plant, not a Game of Thrones dialect).

Rhinomed’s Chinese facility has produced an initial 7,000 units of the device, which incorporates patent ‘smarts’ around the use of a reservoir for the liquids and the way the device is recharged.

To be pitched at around \$US15, each unit lasts for 10 to 15 uses.

“We are steering clear of clinical claims but [the product] amplifies what a nasal dilator generally does,” Mr Johnson says.

“We think we have something really innovative and hopefully the retailers - and consumers - agree.”

Initially the product will be available over-the-counter, with some scope for turning it into a higher-margin prescription product later.

He says he can't be sure how many stores will take the product, but he's buoyed by the likely increased recognition of Rhinomed winning the US Drug Store News retail excellence award (in the over-the-counter category), earlier this month.

Given the gong was the first for an Australian company, the trophy sits proudly in Mr Johnson's pool room.

## **Inhaling marijuana**

Rhinomed is also eyeing the medical marijuana sector, given the device is a potentially effective delivery system for the healing herb.

In September, Rhinomed entered a 12-year deal with US house Colombia Care, to develop nasally delivered medical cannabis formulations. Colombia Care has licenced the Rhinomed platform, with Rhinomed entitled to double-digit royalties should a commercial product emerge.

Mr Johnson maintains that oral delivery misses the mark 95 percent of the time, while nasal sprays are only about 50 percent effective. “We can dictate the rate of release over a set period,” he says. “The key is to have repeatable and predictable dosages.”

While Colombia Care would do the formulation and Rhinomed wouldn't touch the cannabis itself, the parties would need to sort out regulatory issues such as US state border restrictions in transporting the substance.

## **Financials and performance**

Rhinomed recorded revenue of \$1.35 million in the six months to December 31, 2018, up 77 percent.

The company has also invoiced \$1.8 million for a record 112,682 units. Of this, \$535,000 is expected to be recognized as revenue “in the short to medium term”.

The company has sold 400,000 packets of Mute to date.

Rhinomed has \$3.8 million in cash, following a November placement that raised \$4.7 million at 21 cents apiece, with a further \$147,000 raised in a share purchase plan.

The company lost \$2.87 million in the half year, compared with a \$1.92 million deficit previously and has expected cash outflows of \$1.29 million for the March quarter.

Over the last 12 months, Rhinomed shares have traded between 15 cents (March 1 2019) and 38c (October 1, 2018). Formerly known as Consegna Group (and previously Helicon Group), the company adopted its current guise in late 2013 and the stock peaked at 63 cents in November that year.

### **Dr Boreham's diagnosis:**

Rhinomed has come a long way since your columnist last analysed the stock in September 2017, just after the company reported 2016-'17 revenues of \$1.7 million and a loss of \$4.4 million.

Sadly, though, the shares have merely marked time.

In the short term, Rhinomed's fortunes revolve around the company's ability to become a genuine standard-of-care for sleep disorders and a recognized alternative for the many nasal decongestants on market.

Ultimately, Mr Johnson hopes the new product can be used as a delivery platform for any number of drugs, such as glyceryl trinitrate (GTN) for angina sufferers. "People who think that Rhinomed only produces a plastic stent are wrong," he says. "We have a platform and we can put anything on that platform."

Achieving genuine scale could be a tough ask, but to Mr Johnson, not even the sky's the limit.

We're talking literally: given the lack of gravity, astronauts are well known to suffer nasal congestion problems and Mr Johnson hopes the new product will become the extra-terrestrial remedy of choice.

"I'm not sure how we are going to achieve that but we will give it a shot."

Back on terra firma, Rhinomed has a true believing - and high flying - shareholder in investor W Whitney George. A fund manager at the New York-based Spratt Asset Management, Mr George upped his Rhinomed stake from 21.81 percent to 22.92 percent.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He tries to get to sleep by the time-honored method of counting sheep, but nose that there are better ways.***