



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Volpara Health Technologies

By **TIM BOREHAM**

**ASX code:** VHT

**Share price:** \$1.395

**Shares on issue:** 247,437,034

**Market cap:** \$345.2 million

**Chief executive officer (and co-founder):** Dr Ralph Highnam

**Board:** Paul Reid (chairman), Dr Highnam, Dr Monica Saini (chief medical officer), Roger Allen, Prof John Michael Brady, John Diddams, John Pavlidis, Karin Lindgren

**Financials\* (full year to March 2020):** revenue \$NZ12.6 million (up 153%), net loss after tax \$NZ20.3 million (previously an \$NZ11.7 million deficit), cash of \$NZ31.4 million (up 118%).

\* One \$NZ1.00 equals \$A0.92

**Major shareholders (as of April 30):** Harbour Asset Management 9.0% Patagorang Pty Ltd (Roger Allen) 8.95%, Dr Highnam 6.75%, Prof Michael Brady 2.76%, Marcus Sarner 2.49%

As we emerge from the coronavirus era, the Wellington-based breast imaging software play clearly expects opportunities - and by that we mean more acquisitions - to supplement its big-ticket purchase of US group MRS Systems for \$NZ21 million (\$A19 million) a year ago.

Clearly flagging its intent, Volpara has just raised \$37 million for “general working capital and further acquisitions” - which puts paid to the notion of capital being scarce in the biotech sector.

A year ago, Volpara raised \$NZ55 million to fund the MRS purchase - and more - so management clearly is not scared of going to the well, if needs be.

With its coffers now swollen to \$NZ69 million and with no debt, the company has amassed an impressive armory to pounce when the opportunity arises.

Put it this way: the company might be all about breasts but it's in no danger of going bust.

Volpara last month demonstrated its top-line progress by posting full-year revenue of \$NZ12.6 million, 150 percent up on the previous year.

While breast screening fell off a cliff during Covid-19, the March quarter was the company's strongest fourth quarter performance to date.

### **The danger of density**

Volpara's platform technology focuses on improving the detection and diagnosis of breast cancer, with an emphasis on measuring breast density. Dense-breasted women are at greater risk of cancer because not only are they at greater risk in the first place, the fatty tissue does not come up well on the mammogram.

“It's like spotting a polar bear against a white background,” says Volpara founder and CEO Dr Highnam.

In the US, 10 percent of women are classed as extremely fatty breasted, which we - not Volpara - will dub the Dolly Parton cohort. Eighty percent are mid-density and 10 percent are “extremely dense” - and any Australian comparison is likely to be no different.

One problem is that the dense-versus-fatty classification is somewhat subjective, despite US medical authorities devising a scale from A to D (A being ‘extremely fatty’ and D being ‘extremely dense’).

“One of our jobs at Volpara is to make it more objective and give a true physical score of breast density,” Dr Highnam says.

He says mammography is effective in reducing mortality rates by 30 percent to 40 percent - but there are better ways of doing it.

“If you have fatty breasts, there's a 90 to 100 percent chance the cancer will be detected at screening, but if you have dense breasts you are down to 60 to 65 percent probability of it being detected,” he says.

“There really is a significant masking risk for women with dense breasts.”

## **Keeping abreast of Volpara**

Dr Highnam is a global expert - perhaps the global expert - on breast density. He even completed an Oxford D Phil (Doctorate of Philosophy) on the topic in the early 1990s, while his fellow scholars were sculling on The Isis or sculling yard arms in the Bear Inn (the town's oldest pub).

Dr Highnam founded Volpara in 2008. The company listed on the ASX on April 26 2016, raising \$10 million at 50 cents apiece. Since then, the company has raised a further \$132 million.

Volpara started with Volpara Density, a tool to measure breast density and thus identify at-risk women for more frequent examinations. Volpara then devised Volpara Enterprise: automated tools used by clinics to improve the efficiency and performance of sites with multiple x-ray machines.

The company then launched Volpara Live! - a tool to assist clinicians in real time.

Volpara Enterprise enables clinicians to detect a sub-standard image before the patient has left the clinic, avoiding the need for an expensive recall.

Users of Volpara Enterprise include New York's Sloan Kettering Cancer Centre, the Houston Texas MD Anderson, California's Stanford University Hospital, the University of Virginia Medical Centre, Women's Breast Imaging Perth, the Auckland Breast Centre and Auckland Mercy Radiology.

The Seattle-based MRS Systems provides mammography reporting systems to more than 1,600 US breast clinics and hospitals.

The MRS purchase also added two radiology reporting platforms, Aspen Breast and Aspen Lung.

While Volpara's products and services are approved and used in 38 countries, the US accounts for 90 percent to 95 percent of revenue and this is unlikely to change in a hurry.

"The US had Federal regulations around breast cancer screening, but individual sites have more choices about what they can do," Dr Highnam says.

"They are all keen at being at the leading edge of the curve, which is where we want to be as well."

Volpara sells directly, as well as through partners including GE Healthcare.

Volpara has some interesting backers in Australian entrepreneur Roger Allen, founder of Computer Power group and the venture capital firm Allen & Buckeridge.

Founding director Prof Mike Brady is a professor of oncology imaging at Oxford University.

Dr Saini is a former medical director of GE Health and a breast screening guru. Mr Reid and Mr Diddams are serial company directors in Australia and NZ.

## **Lung screening has breath-taking potential**

Via the Aspen Lung addition, lung imaging contributes only modest revenues. But the potential is clear in that about 600,000 people get lung cancer screening annually, while the eligible market in the US alone is close to six million people.

“Eligible means high risk: you have smoked or you’re over a certain age,” Dr Highnam says. “Currently referring doctors don’t yet know the full benefits, so referrals to screening are low.”

Each lung computerized tomography (CT) scan in the US is reimbursed at \$US250 (\$A362). So, if Aspen Lung can snare five percent of the market, that’s \$US75 million of annual recurring revenue. As for the global market, you can pretty much double that figure.

## **Finances and performance**

Volpara’s revenue has been transitioning from capital purchases to ‘software as a service’ subscription revenues, which allows for smoother annuity income (like breasts, the less lumpy the better).

Typically, the clinics are on five-year contracts, with subs paid a year in advance.

While Volpara posted revenue of \$NZ12 million last year, perhaps the most meaningful number is annualized recurring revenue of \$NZ18 million, up 170 percent. Average revenue per unit improved from 94 US cents in the three months to June 30, 2019, to \$US1.04 in the March 2020 quarter.

We should note that Volpara also posted a \$NZ20.3 million loss, up from the previous \$NZ11.7 million deficit. This resulted from operating costs more than doubling to \$NZ36 million, which management attributes to organic growth and the costs of the MRS acquisition.

Management has taken action to pare these operating costs by 10 percent to 15 percent.

The company has not proffered earning guidance for the 2020-'21 year. “It’s so far, so good with Covid-19, but sales are slow and things are uncertain in the US,” Dr Highnam says. “We’ll reconsider [guidance] at the end of the second [June] quarter.”

As of balance date, the MRS breast product was installed across 1,570 sites and Volpara Enterprise at 587. The lung screening product was installed at 177 sites. Over time, the MRS revenues will move from up-front capital sales to the internet ‘cloud’ subscription model.

Volpara’s capital raising involved a \$28 million institutional placement and a \$7 million share purchase plan, both at \$1.30 (a modest 10 percent discount). The share plan was expanded to \$9 million after the company received \$11 million of subscriptions.

During the February and March meltdown, the shares slumped from \$1.90 to a low of 81 cents. Since listing they have traded as high as \$2.09 (November 2019) and as low as 30 cents (May 2017). Volpara was the second-best performer of the Biotech Daily top 40 biotech stocks in 2018, surging 200 percent.

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

Volpara's quest to dominate the US market is being helped by an expanding number of states issuing breast density screening guidelines. In February, Georgia became the 38th State to do so, with the guidelines now covering close to 90 percent of US women.

In the US, Volpara products have been used for 27 percent of all women screened - 10 million patients - compared with seven percent a year previously. So, while that represents stellar growth it's still a case of a (breast) cup half-full.

Dr Highnam notes the US Food and Drug Administration recently issued guidelines to improve the quality of mammography and provide more information to patients, especially about breast density. These guidelines had remained untouched since 1997.

Still, investors might be wondering when Volpara will turn a quid. Broker Morgans plugs in an \$NZ8.3 million loss for the current year to March 31, 2021, but then a \$NZ2.63 million surplus in 2021-'22 and a \$NZ18.3 million profit in 2022-'23. Bell Potter's biotech watchers are more cautious and expect the company's red ink to persist over these three years.

A rough measure of Volpara's potential is that 75 million women are screened worldwide each year, so if the company can reach targeted annual revenue per unit of \$US10 (compared to the March 2020 quarter \$US1.04) that's a \$US750 million a year market.

Asian markets are likely to present opportunities, given the increasing breast cancer rates for dietary and lifestyle reasons.

Bear in mind that building an internet 'cloud' subscription business entails up-front expenditure to woo customers, with the revenue recognized over the life of the contract.

But as the customer book builds, revenue and earnings 'do a Dolly Parton' and swell exponentially.

***Disclosure: Dr Boreham is not a qualified medical practitioner. He does not possess a doctorate of any sort but does sport impressive man boobs that would put Dolly to shame***