



Biotech Daily

Friday May 29, 2020

Daily news on ASX-listed biotechnology companies

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MARKET REPORT

The Australian stock market fell 1.63 percent on Friday May 29, 2020, with the ASX200 down 95.4 points to 5,755.7 points. Fourteen of the Biotech Daily Top 40 stocks were up, 21 fell and five traded unchanged.

Kazia was the best, up four cents or 9.5 percent to 46 cents, with 132,882 million shares traded. Mesoblast climbed 8.4 percent; Clinuvel, Polynovo and Prescient were up more than six percent; Orthocell improved 5.9 percent; Nanosonics was up 3.4 percent; Compumedics, Impedimed, Opthea, Oncosil, Pro Medicus and Universal Biosensors rose more than two percent; with Cyclopharm and Resmed up more than one percent.

Osprey led the falls, down 0.2 cents or 12.5 percent to 1.4 cents, with 1.9 million shares traded. LBT lost 8.8 percent; Dimerix and Patrys fell more than seven percent; Proteomics was down 6.9 percent; Alterity fell 5.3 percent; Genetic Signatures, Next Science and Uscom were down more than four percent; Amplia, CSL, Medical Developments and Paradigm lost three percent or more; Cynata, Ellex, Neuren and Optiscan shed two percent or more; Antisense, Pharmaxis, Starpharma and Telix were down more than one percent; with Cochlear and Volpara down by less than one percent.

[DR BOREHAM'S CRUCIBLE: NANOSONICS](#)

By TIM BOREHAM

ASX code: NAN

Share price: \$7.23; **Market cap:** \$2,173.4 million; **Shares on issue:** 300,603,570

Chief executive officer: Michael Kavanagh

Board: Maurie Stang (chair), Mr Kavanagh, Marie McDonald, Dr David Fisher, Steven Sargent, Geoff Wilson, Dr Lisa McIntyre.

Financials (December half 2019): revenue \$48.5 million (up 19%), pre-tax profit \$6.7 million (down 39%), net profit after tax \$5.7 million (down 20%), earnings per share 1.88 cents (down 20%), cash of \$82 million (up 13.5%)

Identifiable major shareholders: FMR LLC (Fidelity) 9.26%, Selector Funds Management 5%, Maurie Stang 6.32%, Bernard Stang 5.82%, Steve Kritzler 2.84%

Let's stress from the outset that Nanosonics is one of the few device plays that has resisted drawing a Covid-19 'save the world' angle into its narrative.

But given Nanosonics is at the front line of germ warfare with its medical probe sterilizing devices, the company has more reason to do so than most of its peers.

Well before the crown of spikes virus wrought havoc on the world, Nanosonics' Trophon device had become well-established as the high-level disinfectant standard of care.

Replacing more cumbersome and less effective bug-busting techniques, the Trophons are sold in 21 countries - notably the US - either directly or via distribution partners.

A key figure in Nanosonics' evolution, chairman Maurie Stang says any new medical technology has to be both cost effective and produce clear measurable benefits.

"While physicians and hospitals want the latest and the best, boards and financial directors are playing a greater role," he says.

"One of the great strengths is that infection control organizations work hand-in-glove with Nanosonics."

A spin off from the private Novopharm Research, Nanosonics listed on the ASX in May 2007, having raised \$27 million at 50 cents apiece.

With the Trophons well established, the burning question now is what product the company will roll out next?

A new weapon in germ warfare

The Trophons are not monsters from Dr Who but wall-mounted units that treat the probes with biocidal micro droplets, derived from a canister containing hydrogen peroxide. Only water and oxygen are produced as byproducts and they're as wholesome as daisies and buttercups.

"Most disinfectants are used over again," Mr Stang says. "With Nanosonics, every patient gets a fresh dose. The process is automated and takes seven minutes, which is the time it takes to change a [surgical] gown."

While the capital cost of a unit is about \$10,000, Nanosonics also derives considerable revenue from selling the associated consumables, such as the hydrogen peroxide canisters, probe covers, printers and printer rolls.

Launched in 2018, the Trophon 2 is a bells-and-whistles version with enhanced functionality, such as the ability to create and store digital records for audit purposes.

"Every day approximately 60,000 patients are protected from the risk of cross contamination because their probe has been Trophoned," the company says.

Trophoned? You know you've really made it when your brand name becomes a commonly used verb - not that the company is quite at that juncture yet.

Trophon sales have been spurred by new rules on high-level disinfectant requirements in Britain, the US and Germany. In April, the French Ministry of Health followed suit, requiring high-level disinfection of endo-cavity ultrasound probes even if a sheath is used.

Distribution hits and misses

Initially, the company signed up GE Healthcare as its sole distributor in North America. But after it became clear that GE was focused on its own customers, Nanosonics built its own sales force and also cut a better deal with the healthcare giant.

GE remains an important distributor, with a tie-up recently expanded to cover Denmark, Finland, Spain and Portugal. The devices are sold by a range of distributors elsewhere - such as Toshiba, Philips and Siemens - and via a direct sales force in Britain.

Customers can either acquire the equipment outright or rent it, or enter a hybrid managed equipment service arrangement. The distributors can buy the machines, consumables and spare parts and on-sell them, or just the capital equipment.

Finances and performance

Given its profitable status Nanosonics doesn't need to 'do' quarterly reports, but in early April reported that March quarter sales were well up on the previous corresponding period.

Covid-19 has restricted access to hospitals, thus tempering Trophon unit sales for the remainder of the financial year to June 30, 2019. But consumables sales are in line with pre-virus expectations.

In the first (December) half the company increased revenue by 19 percent to \$48.5 million. But reported net profit declined by 20 percent to \$5.7 million, the result of increased investment in the aforementioned opportunities. The research and development budget also ramped up to \$6.8 million - from \$5.5 million previously.

During the half year, the company sold 22,500 Trophon units, up 17 percent year on year and eight percent on the half year. Of these, 19,930 (88 percent) were sold in North America (mainly the US, in other words).

The numbers also show that Nanosonics gleaned 70 percent of its revenue from service and consumables, with the remainder from the Trophon unit sales.

Nanosonics has a very hygienic cash balance of \$82 million, up \$9.5 million on the half, with only nominal debt of \$302,000. Nanosonics shares peaked at \$7.60 on February 14 and slumped to a low of \$4.37 on March 23, before staging an almost perfect V shaped recovery.

From Nanosonics to Megasonics

Nanosonics greater fortunes rest with a new product based on the Trophon platform.

“The technology is designed to address a major unmet need in infection prevention and would involve both capital equipment and consumables,” Mr Kavanagh told the company’s annual general meeting.

The product also presents a “similar financial opportunity” to the Trophons. Hinting at the nature of the new product, Nanosonics cites extension opportunities in compliance and traceability, instrument cleaning, environmental decontamination and both high-level and low-level disinfection.

With the Trophons, Nanosonics cites a global “base opportunity” of 120,000 units, which means it’s captured less than 20 percent of the worldwide market.

But this penetration varies markedly: the Trophons account for half of the North American market, but only two percent of the European and Middle Eastern market and four percent of the Asia Pacific. The company enjoys 75 percent penetration of its home market of Australia and New Zealand.

Sparking joy in Japan

Having recently obtained regulatory approval there, Japan looms large on Nanosonics’ list of new geographies to conquer. That’s because dirty doings are afoot in ascetic and germ-obsessed Japan, the nation that brought minimalist maven Marie Kondo to the world.

Disconcertingly, a study of sterilization methods for transvaginal ultrasound probes found that 90 percent were still infected after being treated in the standard way - a quick going-over with an alcohol or ammonia wipe.

Half of the tainted devices contained the antibiotic-resistant bacteria *Staphylococcus aureus*, which is unlikely to spark joy in anyone. Naturally, Nanosonics will play-up any adverse findings but we reckon just one dirty device is one too many.

Dr Boreham's diagnosis:

While Nanosonics shares are still slightly off their peak levels, the stock is still valued at a heady \$2 billion and the term 'the next Resmed' is tricking from the mouths of salivating investors. One never knows.

A measure of Nanosonics' potential from here is the degree to which it can further penetrate its target markets and encourage upgrades to the Trophon 2 (the oldest Trophons are now more than five years old and are starting to be replaced).

Then there's the Mystery Product, due for release sometime by July 2021.

Eventually, the Trophons are expected to account for less than 40 percent of sales, so there's much rising on the enigmatic instrument and, indeed, further product iterations.

Mr Stang notes the \$10 billion a year anti-infection market is bigger than Resmed's sleep apnoea space or Cochlear's hearing market.

On broker Morgans' numbers, Nanosonics shares are trading on a heady earnings multiple of 166 times, assuming current-year earnings of \$12.2 million.

This valuation drops to a mere 98 times in the year to June 30, 2021, based on forecast earnings of \$20.7 million.

The firm notes that given the restricted access to hospitals, there's some doubt about volumes in the June and September quarters.

"Nanosonics success is not an accident," Mr Stang says. "When 3M and GE invested, we were an encouraging start up, now we are in the ASX200 and our road map is becoming clearer by the day."

Your columnist doesn't question Mr Stang's assertion that Nanosonics is at the early stages of growth but reckons the stock is one to buy on weakness - such as when they almost halved during the March selloff.

Dang! Why doesn't anyone ever ring the bell on such occasions?

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He likes to think he asks probing questions, but keeps it clean at the same time.

[VOLPARA HEALTH TECHNOLOGIES](#)

Volpara says receipts from customers for the year to March 31, 2020 was up 152.8 percent to \$NZ12,638,000 (\$A11,803,955) with net loss after tax up 73.2 percent to \$NZ20,335,000 (\$A18,992,992).

Volpara said revenue included \$NZ6,466,000 from breast imaging software subscriptions, \$NZ3,396,000 was from sales of breast imaging software, \$NZ2,309,000 was from breast software maintenance agreements, and \$NZ467,000 was from lung cancer imaging software contracts.

The company said diluted loss per share was up 42.9 percent to 10 NZ cents, net tangible assets per share was up 50.0 percent to 0.12 NZ cents and it had cash, cash equivalents and cash on deposit of \$NZ31,378,000 at March 31, 2020 compared to \$NZ14,383,000 at March 31, 2019.

Volpara was up one cent or 0.7 percent to \$1.405 with 1.7 million shares traded.

[IMMUTEP](#)

Immutep says it has received \$EUR2,173,454 (\$A3,630,112) from the French Government under the Crédit d'Impôt Recherche scheme or Research Tax Credit program.

Immutep said the rebate related to research and development expenditure at its Paris, France-based Châtenay-Malabry laboratory.

Immutep was unchanged at 18.5 cents with 1.8 million shares traded.

[ACRUX](#)

Acrux says it has an exclusive sales, marketing and distribution agreement with the Tampa, Florida-based Trupharma LLC for six of its existing products.

Acrux did not disclose the nature of the six products or the value of the contract.

The company said Trupharma would be responsible for commercialization and would manage US Food and Drug Administration applications.

Acrux said it would continue scientific and bioequivalence activities to develop the products and seek FDA approvals.

Acrux said it would share gross profits with Trupharma and the agreement for each product would be 10 years from launch.

Acrux chief executive officer Michael Kotsanis said the company was "excited to enter into this agreement with Trupharma and we look forward to developing a long-lasting relationship between the two companies".

"The agreement marks a significant step forward in achieving Acrux's transition into the generics market," Mr Kotsanis said.

Acrux was up four cents or 29.6 percent to 17.5 cents with 3.7 million shares traded.

[MICRO-X](#)

Micro-X says it has shipped \$500,000 of its Carestream DRX Revolution Nano x-ray systems to Europe, North America, Asia and Australia since May 1, 2020.

Micro-X said the total units shipped and invoiced since January 2020 was now \$2.2 million.

The company said delivery times were required to be less than four weeks to meet Covid-19 customer demand.

Micro-X fell one cent or 6.7 percent to 14 cents with 1.4 million shares traded.

MAYNE PHARMA GROUP

Mayne says it has an exclusive, long-term licence and supply agreement with Mithra Pharmaceuticals to commercialize its oral contraceptive E4/DRSP in Australia.

Mayne said E4/DRSP was a novel, next generation oral contraceptive and contained 15mg of Estetrol (E4), a naturally occurring estrogen, and 3.0mg of drospirenone (DRSP). In October, the company said it had a 20-year deal with Mithra to commercialize E4/DRSP in the US and last month, submitted a new drug application to the US Food and Drug Administration (BD: Oct 2, 2019, Apr 16, 2020).

Today, Mayne said it expected to file the product with the Australian Therapeutic Goods Administration in 2020 for a potential launch by December 31, 2021.

The company said that on approval, it expected to receive five years of data exclusivity from the TGA, with the option to obtain a license to register and launch E4/DRSP in New Zealand.

Mayne fell one cent or 2.3 percent to 42.5 cents with 28.3 million shares traded.

THC (THE HYDROPONICS CO) GLOBAL GROUP

THC says it has prescribed the first Australian-produced full-spectrum marijuana product for Australian patients.

THC said that it would produce marijuana product produced from isolate for a schedule four high purity option over the coming weeks.

THC was up 1.5 cents or four percent to 39 cents.

LIFESPOT HEALTH

Niv Dagan, Freedom Trader and 10 Bolivianos say they have increased their holding in Lifespot from 6,405,717 shares (8.26%) to 8,266,590 shares (9.43%).

The Melbourne-based Mr Dagan, Freedom Trader and 10 Bolivianos said they bought the shares between November 4, 2019 and May 25, 2020 with the single largest purchase 244,571 shares for \$4,891 or 0.2 cents a share.

Lifespot fell 0.1 cents or 2.7 percent to 3.6 cents.

MICRO-X

Micro-X says co-company secretary Georgina Carpendale has resigned effective from today and Kingsley Hall will continue as the sole company secretary.

In February, Micro-X said it had appointed Mr Hall as chief financial officer and co-company secretary and Ms Carpendale had advised the company that she would explore new career directions (BD: Feb 19, 2020).

Feb 24, 2020

MEDADVISOR

Medadvisor says head of strategy Simon Chamberlain has resigned and chief technology officer Victor Kovalev will resign in June 2020 to return to the US.

Medadvisor said Mr Kovalev would be replaced by head of architecture Craig Schnuriger in the interim.

Medadvisor fell 2.5 cents or 3.9 percent to 61 cents.

OSPREY MEDICAL

Osprey says shareholders will vote to increase the number of 'incentive' Chess depositary interests (CDIs) by 249.6 percent from 35,257,082 CDIs to 123,257,082 CDIs.

Osprey said that the annual general meeting would vote to increase its 2016 stock incentive plan by 88,000,000 CDIs "to ensure there is a sufficient number of shares available to make new equity awards", which was currently "not sufficient ... to issue the options to the non-executive directors in lieu of director's fees".

The company said the meeting would vote to issue options to directors, John Erb, Neville Mitchell and Sandra Lesenfants in lieu of directors fees re-elect directors Mr Erb and Mr Mitchell and approve the 10 percent placement facility.

The virtual meeting will be held on June 19, 2020 at 9am (AEST).

Osprey fell 0.2 cents or 12.5 percent to 1.4 cents with 1.9 million shares traded.

PHARMAUST

Pharmaust has requested a trading halt "pending an announcement regarding disclosure of preliminary results from the Sars-Cov-2 pre-clinical trial".

In April, Pharmaust said that Melbourne's Water and Eliza Hall Institute would test the effects of monepantel on Covid-19 infections.

The company has been trialing the sheep worm treatment on dogs for cancer and earlier this month said that one dog of seven with naïve B cell lymphoma had a 60 percent reduction in tumor size (BD: Apr 17, May 12, 2020).

Trading will resume on June 2, 2020 or on an earlier announcement.

Pharmaust was up 0.2 cents or 2.1 percent to 9.7 cents.