



Biotech Daily

Friday November 6, 2020

Daily news on ASX-listed biotechnology companies

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- * **DR BOREHAM'S CRUCIBLE: MACH7 TECHNOLOGIES**
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- * **PHARMAUST AGM: 21% OPPOSE 10% PLACEMENT CAPACITY**
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- * **ALL CHANGE AT GI DYNAMICS**
- * **MARK LAMPERT, BVF REDUCE TO 19.5% OF PHARMAXIS**

MARKET REPORT

The Australian stock market was up 0.82 percent on Friday November 6, 2020, with the ASX200 up 50.6 points to 6,190.2 points.

Twenty-two of the Biotech Daily Top 40 stocks were up, 10 fell, seven traded unchanged and one was untraded.

Cynata was the best, up 10 cents or 12.5 percent to 90 cents, with 301,108 shares traded. Imugene climbed 10.5 percent; Immutep improved 7.4 percent; Universal Biosensors was up 6.35 percent; Amplia rose five percent; Actinogen, LBT and Telix were up more than four percent; Next Science, Nova Eye, Oncosil, Prescient and Resonance climbed more than three percent; Nanosonics, Neuren, Paradigm, Proteomics and Uscom rose two percent or more; Genetic Signatures, Kazia and Starpharma were up more than one percent, with CSL and Medical Developments up by less than one percent.

Pharmaxis led the falls, down 1.1 cents or 10 percent to 9.9 cents, with 28.5 million shares traded. Impedimed fell 4.65 percent. Dimerix lost 3.6 percent; Polynovo and Volpara shed more than two percent; Avita, Mesoblast and Resmed were down more than one percent; with Clinuvel, Cochlear, Opthea and Pro Medicus down by less than one percent.

DR BOREHAM'S CRUCIBLE: MACH7 TECHNOLOGIES

By TIM BOREHAM

ASX code: M7T

Share price: 94 cents

Shares on issue: 234,618,370

Market capitalization: \$220.5 million

Chief executive officer: Mike Lampron

Board: David Chambers (chair), Jenni Pilcher, Dr Elio Siegel, Robert Bazzani, Mr Lampron

Financials (September quarter 2020): receipts \$3.75 million, operating cash outflows \$1.82 million, cash balance \$17. million, quarters of available funding: 9.8

Year to June 30 2020: revenue \$18.9 million (up 102%), earnings before interest tax depreciation and amortization (Ebitda) \$3.3 million (up 180%), net profit after tax \$169,000 (previous \$7.05 million loss)

Major holders: Steven James (JFMG Financial) 14.35%, Clime Investment Management 9.11%, Australian Ethical 6.45%.

In geek terms mach 7 refers to seven times the speed of sound, which is quite apt given the namesake company's hypersonic equities performance.

The reason for Mach7's warp share speed is that it has emerged as a US leader in 'enterprise imaging' - the gentle art of creating, storing and viewing medical happy snaps.

In the words of the marketing department, the company strives for an "integrated imaging ecosystem where all technology works in harmony".

Mach7 shares have zoomed fivefold over the last two years, with revenues last year more than doubling (albeit off a low base). In September, the company was promoted into the recently-created S&P ASX technology index.

Mach7 is also profitable. But a key reason for the investor ardor lies elsewhere: the remarkable performance of ASX exemplar - or quasi rival - Pro Medicus.

As we'll explain, the pair operates in subtly different sectors, but that's hardly going to stop Mach7 punters dreaming of becoming the next Pro Medicus.

About Mach7

Mach7 is surfing the digital records trend with its internet “cloud”-based enterprise software for hospitals and clinics. This allows for these healing houses to aggregate an individual’s medical records so that they are readily available for healthcare professionals.

“All parts of hospitals produce images,” says chief executive Mike Lampron. “We are a central repository for those images to be stored in a way that allows customers to consolidate their supply chain and reduce costs.

“We also serve up data in a clinically meaningful way. Part of that could be a digital medical record, accessing data directly from our own systems, or hospitals acquiring their own [artificial intelligence] algorithms to assist them to read those studies.”

Mach7 claims to be one of the few truly independent providers of vendor neutral archives, or VNAs. As their name suggests VNAs allow any provider’s imaging tools to be integrated on the platform. In contrast, incumbents such as GE Health, Fuji and Highland Medical provide archiving as an add-on component of their software.

Mach7 also provides picture archive communications systems, or PACS, the diagnostic tool used by clinicians.

In July, Mach7 paid \$40.9 million for the Ontario-based Client Outlook, which expanded the company’s reach from the ‘back end’ - the archiving and the handling - to image viewing.

Founded in 2002, Client Outlook and its key Eunity Viewer product has about 90 customers and in private hands turned over \$8.8 million in the year to June 2020 - just under half of Mach7’s turnover. The purchase expands Mach7’s total addressable market from \$US750 million (\$A1.05 billion) to \$US2.75 billion.

While Mach7 is focused on the US market, it has clients in Britain, Qatar, China and South East Asia.

Takers include Advocate Aurora Healthcare, Adventist Health Tulare, Penn Medicine, Massachusetts General Hospital, University of Virginia Health System, Broward Health (a top 10 hospital owner), Maine Health (a state-wide healthcare provider) and Hamad Medical Corp (Qatar’s leading hospital system).

In 2018, the company won its biggest contract, a \$15 million deal with the Hospital Authority of Hong Kong, which manages 43 public hospitals.

Thanks Mike ... and over to you, Mike

Based in Burlington, Virginia, Mach7 was founded in 2007 by image workflow expert Ravi Krishnan, who has held roles at GE Healthcare and Agfa Healthcare (Mr Krishnan remains Mach7’s chief strategy officer).

Mach7 launched its first product in 2012. In March 2016, the company merged with the ASX-listed diagnosis house 3D Medical - a reseller of Mach7's products - in a share deal.

Mr Lampron signed on as the company's chief operating officer in March 2017, while Michael Jackman became CEO in September 2017.

But the board decided that two Mikes were one too many and Mr Lampron became CEO in March last year. A medic in the US Air Force, Mr Lampron went on to senior health roles at IBM, GE Health and teleradiology group Imaging on Call.

Mach7 chair David Chambers is notable as the former CEO of Pro Medicus and Visage Imaging.

Chief financial officer and company secretary Jenni Pilcher was Australian chief executive at 3D Medical and has also been chief numbers woman at Mesoblast and Alchemia.

A mandate for change

While Mach7 had been winning contracts, Mr Lampron came to the big chair with a change agenda.

"Our strategy was to go after several markets including Latin America and Europe and we were being very opportunistic," Mr Lampron says.

"We decided our spend was too high and our company was too small to be all over the globe."

The company settled on two key geographies - North America and the Asia Pacific - and set a target of positive cash flow by February this year (which it achieved ahead of time).

"I wanted to prove to investors that you can cut back on costs and worry about cash, but it really doesn't have to be at the cost of building revenue," he says.

"It doesn't have to be one or the other."

Finances and performance

Mach7's revenue of \$18.9 million in the year to June 30, 2020 consisted mainly of \$10.4 million from software, \$5.5 million-plus from annual maintenance fees and \$2.4 million from professional service fees.

Geographically, the US accounted for \$10.9 million, or 58 percent. The Asia Pacific - mainly Hong Kong - chipped in another \$6.8 million (36 percent), with \$1.2 million (six percent) derived from the Middle East.

Mr Lampron says each category had double digit growth, with the US software fees skewed towards Advocate Aurora Healthcare.

A year ahead of the Covid crunch, management launched a costs blitz, with the Client Outlook purchase expected to deliver \$2 million of integration savings. Of this amount, \$1.5 million has been banked already.

Client Outlook will deliver annuity subscription revenues, which will offset Mach7's traditionally lumpy sales of capital equipment.

To fund the Client Outlook purchase, Mach7 raised \$34.8 million, \$31.1 million by way of a one-for-four rights issue and the remainder in a placement. The raising was struck at 68 cents a share, a 14 percent discount.

Late last year, the company raised \$20 million in a placement at 62 cents apiece.

Mach7 shares have pivoted from a coronavirus-era low of 37 cents (March 23 this year) to a record high of \$1.13 on October 6. In mid-June 2017 the stock traded as low as 11 cents.

Quantifying the Covid curse

As could be expected, Mach7's sales slowed in the June half, as client hospitals turned from tweaking their tech to requisitioning respirators.

But management expects growth to "resume and even accelerate" as a result of pent-up demand.

"Our software is useful to hospitals in these times when they need to find solutions to allow clinicians to work outside the walls of the hospitals," Mr Lampron says.

The company cited contracted annualized recurring revenue (CARR) of \$9 million as of June 30, 2020, up 14 percent despite the June half slowdown.

Mach7 also logged sales orders of \$13.28 million for the year, bearing in mind the Hospital Authority of Hong Kong coughs up when the services are delivered, rather than upfront.

In the September quarter the company increased new orders by \$3.3 million and added another \$900,000 to CARR. The company also signed on nine new customers.

Mach7 versus Pro Medicus

Mr Lampron says there's "no obvious ASX alternative for pure exposure to enterprise imaging".

But what about the aforementioned Pro Medicus?

The way the Mach7 camp sees it, Pro Medicus provides radiology systems for the more traditional academic medical centres.

Mach7's "enterprise imaging" appeals to a broader audience of integrated delivery networks, or IDNs: a formal grouping healthcare and health insurers provided in a defined US geography.

"Mach7 focuses on the rest of the 'ologies': dermatology, oncology, cardiology, pathology ... for the Auroras and the Adventists of the world," Mr Lampron says.

As a result, Mach7 and Pro Medicus rarely trip over each other in the market, but increasingly they are tackling each other's turf. For example, the Client Outlook purchase allows Mach7 to offer radiology imaging.

"Radiology PACs are very traditional, you are replacing an existing system rather than selling a new one," Mr Lampron says. "We both have the same concept but we are both coming at it from completely different perspectives."

But he won't argue with the success of Pro Medicus: "They are a beast in the market and they have a great product."

Dr Boreham's diagnosis:

At a macro level, the enterprise imaging market is worth about \$US2 billion today and is forecast to double to \$US4 billion by 2024.

Despite attempts to roll-back Obama care – US President Barack Obama's sweeping health reforms - the mandating of digital health records has not been affected and this is positive for the company.

Without proffering any specific guidance Mr Lampron says Mach7 expects to have "another great year", albeit skewed to bedding down Client Outlook.

The emergence of black ink on the bottom line is encouraging at Mach7's still immature stage of development.

Yes, the \$169,000 reported net profit wouldn't buy a broom cupboard in Burlington but the company has gone a long way since losing \$17.6 million in 2016-'17 and \$12.6 million in 2015-'16.

Call us old fashioned, but black ink trumps red ink any day - as opposed to a blue wave trumping Trump which we haven't quite witnessed this week.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. The author holds Mach7 shares as part of his early retirement scheme, which amounts to unfairly jinxing the company.

MEDADVISOR

Medadvisor says it has lowered the share price of its \$45 million capital raising from 45 cents a share to 38 cents a share and has requested a voluntary suspension.

On Monday, Medadvisor said it hoped to raise \$45 million to acquire Adheris Health from Syneos Health US Inc in a \$27.9 million placement and \$17.1 million rights offer at 45 cents a share and requested a trading halt (BD: Nov 2, 2020).

Today, the company said that while there was “strong support” at 45 cents a share “there was stronger support at a five percent discount to the company’s last close of 40 cents”.

“As a result, Medadvisor has elected to price the deal at 38 cents,” the company said.

Medadvisor said that at the revised share price, the placement could raise up to \$23.5 million and the institutional and retail rights offer could raise a maximum of \$37.7 million.

The company said capital raising target remained \$45 million, with the hoped-for minimum of \$35 million to complete the Adheris acquisition.

Medadvisor said the record date for the entitlement offer was November 10, with the institutional offer opening on November 6 and closing on November 13, and the retail offer opening on November 13 and closing on November 27, 2020.

Separately, the company requested a voluntary suspension to following the trading halt requested pending the acquisition and capital raising.

Medadvisor said it needed extra time to complete the raising due to “the Melbourne Cup public holiday in Victoria and the presidential election of the United States of America”.

Trading will resume on November 10, 2020 or on an earlier announcement.

Medadvisor last traded at 40 cents.

PALLA PHARMA

Palla says it has finalized an application to the UK medicines regulator to manufacture and sell its codeine phosphate tablets and caplets in the UK.

Palla said the application included validation trials of the 30mg codeine phosphate and 500mg paracetamol tablets and caplets.

The company said that selling finished products in the UK would result in increased revenue and earnings for the year to June 30, 2021.

Palla said that revenue for every kilogram of codeine phosphate sold in tablet form was about 2.4 times higher than that sold as an active pharmaceutical ingredient.

The company said it expected to begin manufacturing and selling the tablets and caplets in the UK in December 2020.

Palla was up one cent or 1.4 percent to 71 cents.

PHARMAUST

Pharmaust says it has passed all resolutions at its annual general meeting, but 21.13 percent of votes opposed the additional 10 percent placement capacity.

Pharmaust said the proposed 10 percent placement capacity was opposed by 27,544,522 votes (21.13%) with 102,832,250 votes (78.87%) in favor.

The company said that the resolution to adopt the remuneration report faced 10.68 percent opposition with the re-election of executive chairman Dr Roger Aston and adoption of the new constitution approved by more than 97 percent of the meeting.

According to Pharmaust’s most recent Appendix 2A notice, the company had 316,229,920 shares on issue, meaning the votes against the placement capacity amounted to 8.7 percent of the company, sufficient to requisition extraordinary general meetings.

Pharmaust was up one cent or 9.1 percent to 12 cents.

VISIONEERING TECHNOLOGIES

Visioneering says it will release 4,404,146 restricted shares from voluntary escrow on November 13, 2020, with 6,606,225 shares to remain in voluntary escrow.

Visioneering said the restricted shares were issued to employees in May in lieu of cash remuneration between April 6 and December 31, 2020.

According to Visioneering's most recent Appendix 2A, the company had 993,725,559 shares on issue, including the 11,010,371 voluntary escrow shares.

Visioneering was up 0.1 cents or 3.45 percent to three cents.

AVITA THERAPEUTICS

Avita says chief financial officer David McIntyre will resign "to pursue life sciences opportunities in his home state of New Jersey" effective from November 23, 2020.

Avita said that Mr McIntyre would provide consultancy services until December 31, 2020 to support a smooth transition of his responsibilities.

The company thanked Mr McIntyre for "successfully leading and completing the re-domiciliation project during his tenure as well as for his many valuable contributions to Avita's executive leadership team".

Avita said that head of finance Sean Ekins would take-on McIntyre's responsibilities as principal financial and accounting officer from November 9, 2020.

The company said it would begin a search a chief financial officer to be based at its headquarters in Valencia, California.

Avita fell nine cents or 1.5 percent to \$5.94 with 561,258 shares traded.

GI DYNAMICS

GI Dynamics says Joseph Virgilio will replace Scott Schorer as chief executive officer, and it has appointed Mark Lerdal as chairman and Ginger Glaser as director.

In 2016, GI Dynamics said it appointed Mr Schorer as chief executive officer, starting on \$US400,000 (\$A524,401) a year (BD: Mar 23, 2016).

In July, the company said it would delist from the ASX, following which its four board members would resign and appoint new directors (BD: Jul 20, 2020).

Biotech Daily found that the resigning board members in July were chairman Daniel Moore, appointed in May 2016, Dr Oern Stuge, appointed in January 2017, Juliet Thompson, appointed in August 2017, and Dr Praveen Tyle, appointed in March 2020 (BD: May 3, 2016; Jan 22; Aug 23, 2017; Mar 2, 2020).

Today, GI Dynamics said Mr Virgilio had previously worked for Boston Scientific, Aptus Endosystems, Angiotech-Surgical Specialties Corp and Amann Girrbach.

The company said it appointed Mr Lerdal as chair on August 10, 2020 and he had experience as a director in financial and business development.

GI Dynamics said Ms Glaser had more than 25 years' experience in quality control and regulatory engagement in medical device organizations, along with knowledge of clinical affairs and engineering.

The company said it remained focused on attaining a Conformité Européenne (CE) mark for its Endobarrier for obesity and type 2 diabetes with clinical trials in India and the US.

GI Dynamics is a US-based public unlisted company

PHARMAXIS

Mark Lampert and BVF Partners say they have reduced their substantial holding in Pharmaxis from 81,277,976 shares (20.61%) to 77,294,676 shares (19.48%).

The San Francisco, California-based Mr Lampert said that between May 5, 2019 and November 4, 2020 he and BVF sold shares with the single largest sale 1,668,710 shares for \$216,932 or 13 cents a share.

Pharmaxis fell 1.1 cents or 10 percent to 9.9 cents with 28.5 million shares traded.