



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: LBT Innovations

By TIM BOREHAM

ASX code: LBT

Share price: 7.5 cents

Shares on issue: 319,901,544

Market cap: \$24.0 million

Chief executive officer: Brent Barnes

Board: Joanne Moss (chair), Brent Barnes, Simon Arkell, Damian Lismore, Brian O'Dwyer

Financials (March quarter 2022): customer receipts \$424,000, operating cash burn \$218,000*, revenue nil, cash of \$5.6 million, quarters of available funding: four

*The company received \$1.03 million of government grants during the period, mainly a \$812,000 research and development tax incentive

Major shareholders: Hettich 9.6%, Brendan Moran 3%, Biomérieux 3%, Z&F International Trading 2%, Mazoni Pty Ltd (Utiger Super Fund) 2%

For most medical device companies, selling six instruments within the space of six months would hardly be cause for celebration.

But for the Adelaide-based LBT Innovations, the sales "inflection point" was an excuse to crack open a cheeky Barossa Valley sparkling given the company had only sold six devices over three years.

The orders pertain to LBT's APAS (automated plate assessment system) Independence, its lab device to automate the processing and interpreting of Petri dish (agar) samples.

Mr Barnes is encouraged because five of the orders were placed by US distributor Thermo Fisher, which signed on last September (the sixth order was jagged directly by the company).

"The company has delivered a number of extremely positive milestones over the last six months that indicate a significant turning point for the company," he says.

"I didn't expect [Thermo Fisher] to have that sort of traction in the first six months."

LBT's US push marks a change of direction for the company, which initially focused on Europe - with underwhelming results.

Nonetheless Mr Barnes recently attended the European Congress of Clinical Microbiology and Infectious Diseases, ECCMID, where 13,500 attendees heard five prezzos about APAS Independence.

On a streak ...

LBT listed in mid-2006 on the back of its foundation product Microstreak, a device for applying samples to culture plates. It was invented by scientist John Glasson in 1979.

French group Biomérieux licenced Microstreak and sold 450 to 500 units under the name Previ Isola between 2007 and 2015. Biomérieux then handed back the rights to LBT.

Advances in automation and algorithmic machine-learning led to LBT changing direction, to automated plate assessment systems (APAS).

LBT's APAS Independence is a funky gizmo that sorts the samples automatically and then uses artificial intelligence and machine learning to determine whether they're positive or negative (and up to 85 percent are the latter).

LBT claims APAS Independence is three times faster than manual processing, handling up to 200 plates an hour.

The US Food and Drug Administration approved APAS Independence in May 2019, with the device winning Conformité Européenne (CE) mark approval in September 2021.

LBT established a 50-50 joint venture with the German-based Hettich AG, called Clever Culture Systems. At the end of 2021 acquired all of CCS in a \$4 million cash and scrip deal.

In 2017, LBT sold its legacy product Microstreak to China's Autobio Diagnostics.

Mr Barnes took over as CEO from Lusia Guthrie in 2016.

... but Europe lags

In July 2020, LBT appointed the California-based clinical diagnostics giant Beckman Coulter as a “channel partner and lead generator” for Europe, rather than distributor.

Mr Barnes says LBT will now work with Beckman Coulter to “align our initiatives to progress our sales traction” on the Continent.

“We need a Thermo Fisher-like agreement of full service and end-to-end sales with a trusted name.”

He stresses Beckman Coulter is also a trusted brand - and could well be part of the solution by way of a revamped deal.

So far, LBT has sold four units in Europe. Two were bought by London’s Health Services Lab (owned by the ASX-listed Sonic Healthcare) and two were picked up by separate German laboratories.

Lessons learnt

Mr Barnes says the early US experience relative to Europe highlights the importance of getting marketing and distributor arrangements right.

The Beckman Coulter tie-up is a sales and marketing compact, by which Beckman Coulter referred clients for LBT’s (one person) sales team to execute. Beckman Coulter receives basically no product margin and its salesforce is not motivated (via commissions) to go crazy on pushing LBT’s product.

In contrast, the Thermo Fisher deal is a full distributor arrangement with Thermo Fisher fully servicing the client and receiving service revenue as well. Thermo Fisher is also motivated to sell APAS units to expand sales of its media products (culture plates).

“It’s important for them to get margin to motivate them and understand how our product fits within their portfolio,” Mr Barnes says.

Making urine analysis a wee bit simpler

LBT has been expanding its urine analysis modules to methicillin-resistant *Staphylococcus aureus* (MRSA, aka ‘Golden staph’), an antibiotic-resistant nasty that causes infections in multiple bodily regions.

“Specifically, this means increasing the number of media (plate) manufacturers that are supported by APAS, which makes it easier for customers to integrate the instruments into their existing workloads,” Mr Brent says.

Last year, the FDA approved a module for MRSA that works on Thermo Fisher plates and those of its nearest rival Becton Dickinson.

Similarly, the company working on an expanded urine module beyond Thermo Fisher plates.

Urine is an attractive opportunity - so to speak - because many labs put multiple specimens on one divided plate.

As you could imagine, this is not exactly best practice, but it's allowed for lab-developed tests.

The two-on-a-plate can't be automated, so the upside stems from the labs moving to the gold standard of a single-sample, automated process. As well as (hopefully) bolstering APAS sales, Thermo Fisher's media sales double as well.

Mr Barnes says that labs want more diversity of suppliers in the post pandemic world, which means the ability to use Thermo Fisher plates as well as those of rivals.

Finances and performance

Let's do some sums

The APAS sells for about \$US300,000 for the hardware, with a \$US20,000 annual licence fee. But make that \$US30,000 in fees if the client buys extra bundles such as an antimicrobial susceptibility test in development.

Broker PAC Partners estimates a \$US100,000 cut to the distributor and \$US100,000 of cost of goods sold, leaving a \$US100,000 profit (plus annual service fee) for LBT.

Over a usual contract period of five to seven years, each unit generates \$A575,000 of top-line revenue.

Take out the Thermo Fisher distribution margin and the cost of goods sold and it looks like sales of 20 to 30 units would be needed to offset LBT's current annual cash burn of \$7.5 million.

Mr Barnes says while the company expects to remain loss-making for the next 12 months, the company is "not far off" break-even, based on sales momentum. PAC Partners estimates 12 sales annually would be needed to get to this glorious juncture.

The company expects a doubling of its sales run rate in the 2022-'23 year.

In the March quarter, LBT reported net cash outflows of \$218,000, although that takes \$1.03 million of government grants (mainly a \$825,000 research and development receipt) into account.

The company has cash of \$5.6 million, which along with research and development monies and sales revenue provides a 12-month funding runway.

“I’ll take the old politician’s line that the board is always looking at funding options,” Mr Barnes says.

LBT has availed of a \$4 million low-interest loan from the South Australian government, which has been repaid at the rate of \$250,000 per quarter and will be fully discharged in November.

Over the last 12 months, LBT shares have ranged between eight cents (mid-May) and 14 cents (September 2021).

Over the last five years they have been as high as 33 cents (July 2017) and as low as six cents (March 2019).

Sizing the market prize

About 2.4 billion lab plates are read manually each year.

LBT estimates a total addressable market of 2,000 labs in the countries where APAS Independence has been launched: Australia, Britain, Germany, France and the US.

The latter accounts for 1,500 of these labs, which are deemed to be at least mid-sized facilities processing more than about 400 plates a day.

In May this year, management was heartened to make a direct sale to New York’s Albany Medical Centre, which only does about 200 plates a day.

This implies a broader market among the smaller labs and the reason is acute shortages of skilled labour.

According to the US newsletter Laboratory Economics, medical technologists in the San Francisco area are commanding salaries of \$US150,000 to \$US180,000 per year, with sign on bonuses of more than \$US25,000.

Says one of the healthcare recruiters quoted in the article: “Lab employees had always been treated like the red-headed stepchildren of healthcare, but the pandemic has raised their recognition and pay.”

Mr Barnes says the situation is similar here, with such roles paying about \$A145,000 a year.

Mr Barnes notes the culture plate market is growing at seven to eight percent as testing expands into areas such as routine MRSA screening in hospitals.

Dr Boreham's diagnosis:

Mr Barnes says investors are justified in querying why the 22-year-old company has only sold a handful of instruments after such an effluxion of time.

“As a shareholder, I empathise with this frustration,” he says. “The company retains focus on what it has control over, which is delivering what we say we will deliver.

“We have achieved important milestones over the last 12 to 18 months but it has taken us longer than we thought.”

The pandemic-induced bottlenecks didn't help, of course, and the company needed to get its ducks in a row with appointing key opinion leaders and getting cited in learned publications.

But with a US distributorship made in heaven (our words) and Europe in remedial mode, Mr Barnes says LBT should be able to sell “hundreds” of instruments over time.

Ultimately, LBT's success will depend on whether the units are ‘must have’ for the targeted labs, or a ‘nice to have’.

If the vaunted return on investment for a typical client in these times of elevated lab salaries holds true, sales should speak for themselves.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He has nothing against red-headed step-children, but does get the feeling he entered the wrong profession.