



Biotech Daily

Friday September 9, 2022

Daily news on ASX-listed biotechnology companies

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MARKET REPORT

The Australian stock market was up 0.66 percent on Friday September 9, 2022, with the ASX200 up 45.5 points to 6,894.2 points. Twenty of the Biotech Daily Top 40 stocks were up, 10 fell, eight traded unchanged and two were untraded. All three Big Caps fell.

Cynata was the best, up four cents or 11.6 percent to 38.5 cents, with 57,185 shares traded.

Proteomics climbed 9.4 percent; Cyclopharm and Starpharma were up more than five percent; Actinogen and Polynovo improved more than four percent; Dimerix and Micro-X were up more than three percent; Avita, Compumedics, Emvision, Genetic Signatures, Impedimed, Medical Developments and Neuren rose more than one percent; with Clinuvel, Mesoblast, Opthea and Telix up by less than one percent.

Next Science led the falls, down 7.5 cents or 8.3 percent to 83 cents, with 115,036 shares traded. Antisense lost 6.45 percent; Imugene and Patrys fell four percent or more; Prescient shed 2.6 percent; Cochlear, Nanosonics, Orthocell, Pharmaxis, Pro Medicus and Resonance were down one percent or more; with CSL and Resmed down by less than one percent.

[DR BOREHAM'S CRUCIBLE: CRONOS AUSTRALIA](#)

By TIM BOREHAM

ASX Code: CAU

Share price: 60 cents; **Shares on issue:** 554,370,703; **Market cap:** \$332.6 million

Chief executive officer: Rodney Cocks

Board: Dr Marcia Walker (interim chair), Mr Cocks, Dr Ben Jansen, Guy Headley

Financials (year to June 30, 2022): revenue \$67 million (up 208%), net profit after tax \$6 million (previously a \$4 million loss), cash \$16.1 million (up 673%), maiden dividend one cent a share (fully franked).

Major identifiable shareholders: Guy Headley 23%, Ben Jansen 23%, Cronos Global 10%, Matua Jansen 10%

In a vast green field of ASX-listed cannabis flame-outs, Cronos Australia stands out as a rare beacon of meaningful revenue and - gasp ! - profitability.

And here's where you really pick yourself off the floor: the company last month delivered a one cent a share maiden dividend - the first time an ASX pot stock has ever dispensed such a return to investors.

At the heart of its success is its markedly different business model: rather than enduring the heavily-regulated drudgery of cannabis cultivation and extraction, Cronos is a medical dope marketplace linking patients, doctors and pharmacies on one platform.

Specifically, the Canview platform links 700 authorized prescribers (mainly general practitioners), 2,800 dispensing pharmacies and 7,000 regular patients. The platform sources around 160 products from 28 local and Canadian suppliers.

The asset-light, virtual platform has been likened to the sector's version of Amazon or Ebay, although it's not quite as easy as clicking and collecting an aromatherapy candle you never knew you needed.

In August, Cronos reported a net profit after tax of \$6.05 million for the full year to June 30, on a 208 percent revenue uptick to \$67.0 million.

"We're really happy that we have a differentiated business model and a differentiated financial outcome as a result," says Cronos chief Rodney Cocks.

About Cronos

Cronos Australia was originally a 50:50 venture between Canadian medical cannabis giant Cronos Group and a private equity fund owned by Mr Cocks.

Mr Cocks was awarded Victoria's Australian of the Year gong in 2005, for tending to injured bombing victims in Bali and Baghdad's UN Headquarters. He has held roles at Linfox and Boston Consulting Group.

Cronos Australia listed on the ASX in late 2019, having raised \$20 million at 50 cents apiece.

Originally, the group's sales plans revolved around Cronos Group's in-house products, under the Peace Naturals banner. The company also sold the Adaya brand and continues to do so.

Cronos had planned to build a cannabis manufacturing facility in Smeaton, Victoria, but its hue changed radically after September 2021, when it announced plans to merge with CDA Health Pty Ltd in a cash-scrip deal.

CDA - as in Cannabis Doctors Australia - operates under a telehealth model, but has face-to-face clinics in Brisbane, the Gold Coast and the Sunshine Coast.

Via its Burleigh Heads Cannabis subsidiary, CDA also owned Canview, a "compliant prescription pathway to access high quality medical cannabis product".

CDA also owned Healthy Not High, which sells hemp products.

Post the circa \$60 million deal, CDA shareholders own roughly 74 percent of Cronos.

The company also has a 50:50 partnership with the founders of the Sukin skincare brand, in view of developing cannabidiol (CBD) based skin unguents.

Musical board chairs

CDA was founded by cannabis doctor Ben Jansen and the commercially-oriented Guy Headley, who has been installed on the Cronos board.

The merger resulted in a wholesale board reshuffle, with original directors Daniel Abrahams, Jason Adler, Michael Gorenstein and Anna Burke leaving the building. (Yes – Ms Burke is the former Labor MP and Speaker of the House of Representatives).

Cronos Global CEO Kurt Schmidt also joined the board in December 2021, but the stint was short-lived after he left his day job in March 2022.

Health sector veteran Shane Tanner chaired Cronos but stepped down in April this year.

Canview? Can do !

Launched in 2020, Canview is automated and works on artificial intelligence.

Via Canview, the patient books a doctor's appointment. The doc then sends the prescription via Canview to one of 2,800 participating chemists (representing half of Australia's pharmacies).

The pharmacy orders the medicine (also via the platform) and a follow-up consultation is arranged.

Dr Cocks says current access arrangements are slow and dis-jointed (excuse the pun).

Currently, medicinal access is available mainly through the Therapeutic Goods Administration's Special Access Scheme B on a case-by-case basis, or authorized prescribing doctors. Access is heavily weighted to the latter channel.

With the exception of the approved cannabis drugs Sativex (multiple sclerosis) and Epidiolex (epilepsy), pot treatments are restricted substances and thus can only be dispensed via these means.

"With those modalities there is a massive compliance burden which sits behind it," Mr Cocks says. "Our system solves the problem for the doctors. It also gives prescribers visibility over inventory and their ability to prescribe."

Sky-high demand

While the listed ASX medical cannabis trip has been difficult generally, use has soared from virtually nil in 2018 to more than 100,000 active patients.

Mr Cocks says anecdotal evidence from the clinic visits suggests that 80 percent of medicinal cannabis is used for chronic pain, often as an alternative to opioids.

Mental health (anxiety) and epilepsy are also often mentioned.

But according to research company BMC's latest survey, only 13.3 percent of patients are using prescribed products which implies most are obtaining their hooch illicitly.

Nearly half the sample reported the prescribed stuff was too expensive, while some respondents said it was too hard to find a prescribing doctor.

Encouragingly, 95 percent reported an improvement in their condition.

Cronos reports the vast majority of medication sold via the platform is whole flower bud (ground and vaporized), as opposed to extracted oils.

Finances and performance

The source of most of Cronos's revenue, the Canview platform sold a record 486,000 products last financial year - a 270 percent increase on the previous corresponding period.

Cumulatively, the company is approaching its one millionth sale.

Cronos gleans its revenue from a margin on the goods sold, with an average prescription value of \$130. Chemists don't pay to be involved and Cronos pays their shipping costs.

Chief finance officer Tom Howitt says the company's gross margin averaged 36 percent for the year, reflecting low fixed costs and the absence of production facilities.

"We are confident we can keep that consistent for the next financial year at least."

Cronos appears well-placed to continue to pay dividends, but Mr Howitt says they will be considered alongside other measures such as acquisitions or growing the existing assets.

"We are working in a fast-moving industry and it's hard to predict anything with certainty," he says. "Everything we do is patient-centric, but in a way that maximizes value for shareholders."

Cronos shares jumped 45 percent to 32 cents on July 25, when the full-year numbers in effect were pre-announced in the June quarter results. Last Monday, the stock whooshed up nine cents, or 19 percent to a record 55 cents on little obvious news. The lowest the shares have traded in the post-merger era is 11 cents, in mid-September 2021.

Surveying the pot-holed landscape

Without harping on the point, pretty much every other ASX pot stock has encountered some sort of strife and most have tweaked their business direction.

Many of them have merged and have had more transitions than David Bowie, such as ASX pioneer Phytotech Medical, which morphed into the cannabis investment group MMJ.

The \$400 million market cap Incannex Healthcare is what one would politely call pre-revenue, but it's taking a serious approach to developing drugs to treat sleep apnoea and traumatic brain injury. It's also got a keen interest in psychedelics, which is proving a popular expansionary - and mind expanding - pursuit.

Little Green Pharma has done well to forge a European focused cannabis oils export business, although production now centres on an acquired Danish facility. Cann Group is producing from a facility near Mildura in northern Victoria, having earlier ditched a plan to build a cultivation factory in Tullamarine at a sky-high cost. The company planned its first commercial harvest in June.

Cann Group recently was busted when Mildura locals noticed an eerie pink glow over the town, which was traced to LED lights at its facility at a hitherto secret location. The quirky incident made world news.

Formerly The Hydroponics Company and then THC Global Group, Epsilon Healthcare is ramping up output at its Southport factory, the biggest compliant cannabis factory in the Southern Hemisphere.

We'll also call out the worthy performance of Althea Group, which managed customer receipts of \$22 million for the 2021-'22 year, up 113 percent. Althea's quirk is that roughly half its revenue derived from recreational cannabis in the (growing) markets where pot is legal.

What's next?

Management's focus will be on enticing more doctors, chemists and patients to join the platform.

A key priority is to convert the occasional-prescribing doctors into more ardent ones.

"We are trying very hard to offer more functionality and make it a simpler and better product," Mr Cocks says. "We don't rest on our laurels ... we work to deepen our competitive moat [position]."

He notes a network effect as more parties join the platform, because the scale of activity increases to the benefit of all.

While overseas expansion is possible, the North American market is muddled by the spread of legalized dope, which means the stuff can be obtained at the corner store or even home delivery. The European market has its own peccadillos.

Acquisitions are possible, but not in upstream growing and cultivating activities.

"M&A can be a huge source of shareholder value but it can also destroy it," Mr Howitt says.

Quite.

Dr Boreham's diagnosis:

With medicinal dope use soaring from a very low starting point and only two percent of general practitioners involved, we agree with management's assertion of an "amazing opportunity".

Freshleaf Analytics reckons the local market was worth \$230 million in 2021, growing to \$423 million by the end of 2022.

"It's really interesting to see that the companies that have made it did a strategic shift away from cultivation," Dr Cocks says. "It's something we've taken lessons from and vindicates ... our strategy around being asset-light."

Mr Cocks says there's been a distinctive "mainstreaming" of cannabinoid therapies as more doctors become comfortable with dispensing the stuff.

Of course, with 31,000 general practitioners in the country there's a long way to go. The other challenge - or opportunity - is to convert the illegal users to kosher ones.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He is the joint owner of a home-mortgage, but please don't call him a dope.

MTP CONNECT

MTP Connect says the Medical Research Future Fund's Clinical Translation and Commercialisation Medical Technology Program is now open for applications. MTP Connect said the program would offer a co-contribution of between \$250,000 and \$1.5 million in support of early clinical development of medical devices with commercial potential.

The organization said the program was open to small to medium-sized enterprises focused on the "development of a medical device for human use, the purpose of which is to diagnose, prevent, monitor, treat or alleviate a disease or injury, or modify or monitor anatomy or physiological functions of the body".

MTP Connect said funding would only be awarded to projects where the device's capability had already been validated with research or preclinical studies.

The Organisation said applications closed on October 7, 2022, and for more information, go to: <https://www.mtpconnect.org.au/programs/ctcm/R2>.

ADHERIUM

Adherium says the Woodbridge, New Jersey-based Dulcian Health will incorporate Hailie into its US chronic care management system, providing reimbursement.

Adherium said the one-year agreement would allow Dulcian to better document patients' Medicare reimbursement claims, by integrating Hailie's asthma and chronic obstructive pulmonary disease inhaler use monitoring capability into its claims system.

The company said that Dulcian's technology collected data already stored in the patient's electronic health records and blended it with additional data to automatically build a Medicare-compliant care plan.

Adherium chief executive officer Rick Legleiter said that Dulcian including the Hailie sensors and data product would increase sales into more medical practices.

"This agreement marks another important step in the execution of the US commercial strategy with remote patient monitoring companies as a key channel in our go-to-market strategy," Mr Legleiter said.

"With our sophisticated devices and Dulcian's integrated platform, we are well positioned to advance patient care by bringing new solutions to doctors and their patients", Mr Legleiter said.

Adherium was up 0.1 cents or 14.3 percent to 0.8 cents with 1.2 million shares traded.

AUSCANN

Auscann says it will lend related party European Cannabis Corporation a further \$3.75 million and sell its Wangara Perth property for \$7 million.

In April, Auscann said it would lend \$5 million to Eurocann to fund further capital to pursue the companies' mutual interests in Europe and Australia (BD: Apr 29, 2022).

Today, the company said both the original \$5 million and the additional \$3.75 million facility would have an interest rate of 7.5 percent and a default rate of 9.5 percent, with a repayment of \$1 million due on both the first and second anniversary of the drawdown.

Auscann said that chair Ted McGrouther was a shareholder in Eurocann and chief financial officer and director Chris Mews was an employee and officer of the investment manager for Eurocann's major shareholder.

The company said that it had a conditional agreement to sell its Wangara property to the Perth-based Yolena Pty Ltd for \$7 million, pending finance and due diligence.

Auscann was in a voluntary suspension for an acquisition and last traded at four cents.

RADIOPHARM THERANOSTICS

Radiopharm says the US Food and Drug Administration has granted orphan drug designation to DUNP19 in indications of osteo-sarcoma.

In April, Radiopharm said it had licenced the protein coding gene leucine rich repeat containing 15 (LRRC15)-targeting DUNP19 antibody from the University of California Los Angeles for solid tumors, starting with osteo-sarcoma (BD: Apr 4, 2022).

Today, the company said orphan drug designation recipients could receive benefits and incentives including tax credits for qualified clinical trials, exemption from user fees and a potential seven years of market exclusivity following the drug's approval.

Radiopharm said that LRCC15 expression was produced by cancer cells and the surrounding tumor micro-environment, but not by healthy normal tissues, and LRRC15 production was "very high in aggressive and treatment-resistant tumors".

"The DUNP19 antibody has a unique ability to effectively find, internalize and destroy both cancer, and [tumor micro-environment] cells, the company said.

"DUNP19 is a first-in-class therapy thanks to its unique dual action tumor targeting and to its fast internalization," Radiopharm said.

Radiopharm managing-director Riccardo Canevari said the orphan drug designation was "a very positive development for one of the latest additions to [our] portfolio of assets, and demonstrates independent validation of the potential we saw in the DUNP19 technology".

"The resulting benefits of orphan designation will allow us to continue the development work of DUNP19's inventor Dr David Ulmert with an even greater level of confidence," Mr Canevari said.

Radiopharm was up one cent or 5.9 percent to 18 cents.

RHYTHM BIOSCIENCES

Rhythm executive chair Otto Buttula says he has reduced his substantial holding in Rhythm from 27,400,000 shares (13.61%) to 23,427,501 shares (10.82%).

In a separate statement, the Brisbane-based Mr Buttula said that he had sold 5,000,000 shares at \$1.30 a share, or a total of \$6,500,000, to a "leading, domestic, institutional funds manager".

Rhythm said that "the primary purpose of the sale from the superannuation fund of which executive chair Otto Buttula is one of three members is to enhance portfolio diversification and better meet trustee, accounting and auditor advice".

Mr Buttula said he had no intention of selling further shares "for the foreseeable future", and that "despite the sale, my associated interests continue to maintain the largest shareholding in the company, maintaining a holding of 10.8 percent (ex-options)".

The substantial shareholder notice said that Mr Buttula acquired 685,001 shares at 85 cents each in a rights issue and exercised 342,500 options to shares at \$1.20 each. Rhythm fell two cents or 1.5 percent to \$1.33.

RESAPP HEALTH

Integrated Core Strategies and Millennium say they have become substantial in Resapp with 45,816,207 shares, or 5.33 percent of the company.

The Singapore-based Integrated Core Strategies, London's Millennium Capital Partners and New York's Millennium International Management said that between August 24 and September 6, 2022, they bought shares, with the largest acquisition 10,000,000 shares for \$2,000,000, or 20 cents a share.

Resapp was unchanged at 20.5 cents with 7.4 million shares traded.

HEXIMA

Merchant Group Australia says it has become substantial in Hexima, with 9,000,000 shares, or 5.63 percent of the company.

The Perth-based Merchant Group Australia said that on September 8, 2022, it bought 9,000,000 shares in Hexima for \$105,867, or 1.2 cents a share.

In July, Hexima said it was winding-up after lead candidate HXP124 failed its nail fungus trial and the share price fell 85 percent to four cents (BD: Jun 24, Jul 11, 2022)

Hexima was up 0.2 cents or 15.4 percent to 1.5 cents with 1.1 million shares traded.

NEUROSCIENTIFIC BIOPHARMACEUTICALS

Neuroscientific says that chief executive officer and managing-director Mr Matt Liddelow has resigned, effective immediately.

On Wednesday, Neuroscientific fell 62 percent to 8.2 cents on the news that a human research ethics committee rejected its submission for a phase I trial of Emtinb, saying the committee “determined that at this stage, the supporting documentation did not sufficiently address the risk-benefit profile to justify the conduct of the planned phase I clinical trial” (BD: Sep 7, 2022).

The company said the decision “was unexpected and ... [was] seeking clarification on the rationale for the decision to determine what steps can be taken to proceed with the phase I clinical trial”.

Today, Neuroscientific chair Paul Rennie said he acknowledged Mr Liddelow’s service of about 4.5 years and thanked him for his efforts.

Mr Rennie said the company would begin “a review of operations and make whatever changes we need to make to ensure our lead asset Emtinb continues to progress to commercialization”.

Mr Rennie said that was “excited about the company because of the potential of Emtinb to help people with neurodegenerative diseases”.

“I acknowledge the loss in shareholder value as a result of the rejected human research ethics committee submission and I will work tirelessly with my ... colleagues to do what we can to get Emtinb into a phase I clinical trial as quickly as possible,” Mr Rennie said.

“A rebuild of the company is underway and I appreciate the support of all investors who have remained with us,” Mr Rennie said.

Neuroscientific said it would begin a search for a new chief executive officer with pharmaceutical development experience.

Neuroscientific was up 1.7 cents or 19.3 percent to 10.5 cents with 2.7 million shares traded.