Biotech Daily

Friday November 11, 2022

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Mach7 Technologies

By TIM BOREHAM

ASX code: M7T

Share price: 55 cents

Shares on issue: 239,139,381

Market capitalization: $131.5 million

Chief executive officer: Mike Lampron

Board: David Chambers (chair), Mr Lampron, Philippe Houssiau, Dr Eliot Siegel, Robert Bazzani

Financials (year to June 30 2022): revenue $27.1 million (up 42%), sales orders $33.2 million (up 30%), loss $4.2 million (down 55.5%), cash $25.7 million (up 40%)

September quarter 2022: receipts $2.64 million, cash outflows $5.04 million, cash on hand $21.5 million, quarters of available funding four

Major holders: Stephen James (JFMG Financial) 15.3%, Australian Ethical 11.2%, Clime Investment Management 7.3%

Observers of the medical imaging space - your columnist included - have delighted in highlighting the yawning gap between Mach7's $126 million market valuation and the $5.5 billion worth of similarly US-focused ASX-listed 'cousin' Pro Medicus.

In reality, there are key differences in their business models, but the companies share the common trait of being moulded via pivotal acquisitions.

In an extraordinary deal, Pro Medicus acquired the ailing California-based Visage Imaging at the height of the global financial crisis, for $5 million.

Visage's research arm subsequently was divested for $15 million and today the Visage products are central to the Pro Medicus business.

In the case of Mach7, in June 2020, the company completed the $40.9 million purchase of Canada's Client Outlook, despite the pandemic preventing Mach7's Burlington, Vermont-based management from ducking over the border to check out the business.

Mach7 chief Michael Lampron dubs the purchase as "transformational" because it expanded the company's repertoire from the 'back end' - the archiving of images and other data - to image viewing.

Previously, Mach7 competed in a sub-section of the enterprise (hospital) imaging market; now it can offer products covering image archiving, viewing and workflows.

Buying Client Outlook wasn't quite the 'Alan Bond' moment for Mach7 in the same way as Pro Medicus's Visage steal was, but it sure bolstered Mach7's revenue pipeline.

"We are seeing that growth and opportunity because we broadened our products," Mr Lampron says.

Catering to the 'ologies'

Mach7 provides diagnostic and imaging tools to all the "ologists"; radiologists, oncologists, cardiologists, pathologists, ophthalmologists, etcetera.

Mach7 provides picture archive communications system, or PACS, the diagnostic tool used by clinicians. But it also provides vendor neutral archives, or VNAs, which allow any provider's imaging tools to be integrated on the platform.

In effect, the company takes images, videos and documents and consolidates them on the one platform.

The data can then be managed and accessed via phones, devices or web browsers.

The company has surfed the move to digital records, which allows hospitals and clinics to aggregate an individual's medical history for easier consumption by the medicos (and hopefully not by hackers, as well).

The company also strives to present data in a clinically meaningful way that also consolidates supply chains and reduces costs.

In the beginning …

Mach7 was founded in 2007, by image workflow expert Ravi Krishnan, who has held roles at GE Healthcare and Agfa Healthcare (Mr Krishnan remains the company's Asia-Pacific head).

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.

But both sides of the merged business were bleeding money and a year later, Mr Lampron was brought in as chief operating officer to "professionalize" the management team.

A former US air force medic, Mr Lampron took over the top job from former GE Healthcare bigwig Mike Jackman in February 2019.

"My focus was on right-sizing the business; we couldn't keep burning cash."

Mr Lampron also had roles at GE as well as with IBM and tele-radiology group Imaging on Call.

Notably, chair David Chambers was formerly CEO of Pro Medicus.

It's a small(er) world …

In the Mike Lampron era, Mach7 also has abandoned its pursuit of Latin America and European markets, in favor of focusing on North America, Asia Pacific and the Middle East.

Mach7 sells in 15 countries, including Australia, but about 87 percent of revenue derives from the US.

Customers include Advocate Aurora Healthcare, Adventist Health Tulare, Penn Medicine, Massachusetts General Hospital, University of Virginia Health System, Broward Health (a top 10 hospital owner) and Maine Health (a state-wide healthcare provider).

In 2018, the company won a $15 million deal with the Hospital Authority of Hong Kong, which manages 43 public hospitals. The most important non-US client, the Hospital Authority of Hong Kong uses Mach7 for enterprise viewing and VNA, but continues to use other vendors for PACS.

Mr Lampron sees especially good opportunities in the Middle East, which has recovered more rapidly from Covid than the Asia Pacific.

In Qatar, Mach7 has signed up Hamad Medical Centre for the VNA product.

In China, Mach7 resells its Eunity product via a distributor, but is not exactly enthused about the Middle Kingdom. It's more excited about markets such as Hong Kong, Singapore, Malaysia and Thailand - exemplified by the fact that Ravi Krishnan is now general manager for the region.

Mach7 has a rota of 27 partner organizations, some of which are re-sellers of Mach7's products or offer artificial intelligence add-ons.

In January this year the company appointed a full-time manager to wrangle these partners, many of which were inherited from Client Outlook.

Business as usual is not usual

Post pandemic, hospitals have started to buy software and equipment again and the resounding message is 'business as usual'.

Or is it? Mr Lampron says there's been a subtle but important market shift, by which patients are avoiding germy hospitals in favor of outpatient locations perceived as safer and more pleasant.

"Because hospitals have staff issues as well, they are also pushing more and more images to that outpatient market to be read diagnostically."

He estimates 40 percent of images are currently being read and analyzed in outpatient settings, compared with 60 percent by the acute care market (in other words, hospitals).

He expects that over the next five years, this ratio will reverse.

"That's important to us because we can play in both the acute care and ambulatory markets," he says. "Not everyone can do that, because of either their price points or their offerings.

"It not just about having all the right advanced tools for the radiologists, it's more about how to integrate the health centres and enable the consumer to manage their own electronic health records."

Finances and performance

In the September 2022 quarter, the company accrued contracted annual recurring revenue of $17.9 million, compared with $17.3 million as of June 30, 2022.

Sales orders of $3.4 million were well down on the $17.4 million chalked up in the September 2021 quarter, but the latter included the benefit of some hefty contract expansions.

In the year to June 2022, Mach7 reported a 42 percent rise in revenue to $27.1 million. Sales orders surged 30 percent to $33.2 million, with just over half relating to subscription (software-as-a-service) requests.

The reported full-year bottom line loss narrowed to $4.2 million, from a $9.3 million deficit previously.

While the company recorded 2021-’22 operating cash flow of $6.3 million, the September quarter showed a less flattering $5 million of outflows (implying a cash runway of only four quarters).

This deficit related to “salary actions” and short-term incentive plan payments in the context of a tight labor market.

Staff costs account for 75 percent of total expenses.

“Because of working from home, we were competing nationally for talent,” Mr Lampron says. “But we could also recruit nationally, so it was a double-edged sword.”

The company says that “notwithstanding the historic pattern of negative first quarter cash flows [it] expects to remain operating cash flow positive for 2022-’23, as it has for the preceding three financial years.”

Over the last 12 months, Mach7 shares have traded between a record high of $1.01 (mid-October last year) and 45 cents (mid-June this year). In June 2017, the stock plumbed as low as 11 cents.

Despite the current subdued valuation, Mr Lampron says Mach7 is “really happy” to be listed on the ASX. “US investors would struggle to understand a company our size, which rarely would be listed,” he says.

Almost all of the share register is Australian based and includes institutional names such as Australian Ethical, Clime Investment Management and Thorney Investments.

“There’s plenty of money - and investors - in Australia,” he says.

Compare and contrast

Mach7’s global rivals include the rebirthed film companies Carestream (Kodak), Agfa, Fujifilm and medical equipment suppliers such a GE Healthcare, Siemens and Philips.

Pro Medicus is more of a friend than a foe, having more of a focus on imaging (PACS) for radiologists at traditional academic medical centres.

The Mach7 business is more about delivering to what the Americans term “integrated delivery networks” or IDNs: a formal grouping healthcare and health insurers provided in a defined US geography.

“We don’t generally compete with Pro Medicus but will often work in concert with them,” Mr Lampron says.

“For example, a radiology group might choose Visage (the Pro Medicus visualization tool) but we might become the back-end to manage and store data.”

Similarly, under a ‘best of breed’ approach, radiologists might use Agfa or Fuji for imaging and Mach7 for storage and electronic records.

Dr Boreham’s diagnosis:

The total addressable enterprise imaging market is estimated at $2.4 billion, but Mr Lampron says the company should be measured on its ability to perpetuate steady sales growth.

We can’t argue with that.

Given the company’s 20 percent organic year-on-year revenue growth, Mach7 is not in a hurry to make another acquisition, but the slide rule hasn’t been altogether discarded.

“We don’t want to acquire just to fill a product gap, it would need to add value to the company and shareholders and we are probably a year and a half to two years away from that,” Mr Lampron says.

Despite its strong progress and prospects, Mach7 is hardly rewarding investors share price wise.

“We feel we are undervalued at current prices but the whole market is a bit shifty now,” Mr Lampron says.

“But if we continue to sell our product the revenue will come and if we continue to be able to recognize revenue the cash is going to come.”

Can’t argue with that, either …

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. But he is not shifty at all, and his images are picture perfect.