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Dr Boreham's Crucible: Next Science

By TIM BOREHAM

ASX Code: NXS

Share price: 43.5 cents

Shares on issue: 265,844,079 (post capital raising but not including 10,000,000 Walker Group convertible notes)

Market cap: $115.6 million

Chief executive officer: Harry Thomas Hall IV

Board: Aileen Stockburger (chair), Mr Hall, Grant Hummel, Dan Spira

Financials (six months to June 30, 2023): revenue $US10.1 million (up 87%), cash receipts $US9.1 million (up 188%), reported loss $US8.6 million ($US7 million loss previously), cash of $US3.5 million (down 32%*)

Major shareholders: Lang Walker and associate interests 31.5% (ahead of exercise of convertible notes), Dr Matthew Myntti (founder and chief technology officer) 3.7%, Judith Mitchell 2.4%, Thorney Investments 5.74%.

With apologies to Charles Dickens, it's the best of times and the worst of times for the wound care house as it shapes itself up for a renewed market assault under a new CEO.

On the positive side of the ledger, the company raised $12 million in a placement and then launched a share purchase plan (SPP) in search of another $5 million.

Lo and behold, investors stormed the barricades and applied for $9.6 million in the SPP, lured by the 35 percent discount on offer.

Management decided to accept $8.5 million, raising a handy $21.5 million in total.

The Next Science oversubscription is welcome news for the latest new CEO in the sector, Harry Thomas Hall IV (known as I.V.)

Next Science also achieved record revenue in the half year to June 2023.

The bad news? Despite the traction, Next Science shares are trawling record lows.

Mr Hall is unfazed.

“Our assessment is the market dynamics are moving in our favour,” he told shareholders. “There is significant support for our wound care offering that pairs the amazing properties of Blastx [one of the company’s key products] with collagen for diabetic foot ulcers and other chronic wounds.”

Ahead of the raising, Mr Hall said the company had “evolved its strategies to reflect the increasing opportunities” in the business.

“If we are going to take advantage of these opportunities, we need our shareholders to show us their support,” he said.

Another Myntti moment

Next Science was founded in 2012 by Dr Matthew Myntti, who was principal scientist at Medtronic Surgical Technologies.

There, Dr Myntti developed ear, nose and throat and neurological products. However, Medtronic didn’t share Dr Myntti’s interest in chronic wounds and happily handed over the relevant patents.

Next Science operates in the two key sectors of wound care and surgical infection control.

The former has a total addressable market of $US3 billion ($A4.68 billion) and the latter $US10 billion.

In the US, 8.2 million people need wound healing annually. As for the surgical side, there are 48 million hospital-based procedures a year.

The company says that chronic wounds kill more people annually than cardiac issues, with half of the patients undergoing amputations not surviving another year.

Early on, Dr Myntti won the backing of property developer and life sciences enthusiast Lang Walker, who funded most of the initial backing of $66 million.

Mr Walker also invested in the wildly successful Neuren Pharmaceuticals, as well as the wildly underperforming Atomo Diagnostics.

Next Science listed in April 2019, raising $35 million at $1.00 apiece.

The company is based in Sydney, but its research and development is carried out in Jacksonville, Florida and its business is US centric.

Changes at the top

When it comes to qualifications, I.V.is no drip.

Based in Jacksonville, Mr Hall had been an executive at Johnson & Johnson's orthopaedic device unit DePuy Synthes, responsible for a $US3.2 billion platform.

He also completed the launch of the first surgical robot developed by DePuy Synthes.

He holds a Bachelor of Science and a Master of Science from South Carolina's Clemson University and a Master of Business Administration from Philadelphia's Pennsylvania State University.

Mr Hall says the Next Science portfolio "provides a unique and differentiated treatment to benefit patients, including those suffering biofilm-based infections".

The company's Australian-based CEO since November 2017, Judith Mitchell retired in July 2023.

Given the company's US emphasis, Ms Mitchell recognised the company's next CEO had to be on the other side of the Pacific.

The war on pathogens

Next Science's products are based on its Xbio platform, which is all about eradicating the bodily bolt holes in which pathogens congregate and quietly multiply - out of reach of antibiotics.

Unlike your usual weapons of war, Next Science's armoury is non-toxic and will only hurt the malevolent bugs. The base ingredients include sodium citrate and citric acid, which are present in most kitchens.

Xbio targets the biofilms that house 90 percent of all bacteria within lattice structures - described as "slimy tangles of protective fibres linked with metallic bonds".

The process removes the metal ions of the extracellular polymeric substance, which means the bacteria die and the biofilm matrix can't re-form. It's the same mechanism of action as treating a wound in salt water.

Infections can stem from devices: anything from humble contact lenses to breast implants, cardiac valves, urinary catheters and cardiac implants.

Alternatively, the biofilm can harbor tissue-related infections stemming from common disorders such as acne, bacterial vaginosis, kidney stones and common wounds.

The Next Science armoury

Next Science has split its business into surgical sales (for orthopaedics) and wound care (around the durable medical equipment or DME model).

Next Science's current product suite consists of:

* Blastx, an antimicrobial wound gel for chronic wounds;

* Bactisure, a lavage to remove biofilms and bacteria in open surgery;

* Surgx, a sterile gel to reduce surgical site infections;

* Torrentx, a wound wash for nurses, emergency departments and home care and Tridentx (the same product), for site preparation ahead of a tissue graft;

* Xperience, a surgical irrigation wash to prevent surgical site infections; and

* TBH - an over-the-counter acne gel (sold in Priceline chemists)

In 2022, Next Science products were used in 462,000 'episodes of care', 80 percent higher than the previous year.

DME status equals reimbursement

Next Science last October won US accreditation as a durable medical equipment (DME) supplier, thus paving the way for Medicare and Medicaid reimbursement of its key wound care product, Blastx.

The DME structure is crucial because it allows the company to sell Blastx in combination with collagen for chronic wounds such as diabetic foot ulcers and pressure ulcers.

The body's natural healing protein, collagen, is the standard of care for 8.2 million patients and used by around 10,000 podiatrists and wound care clinics in the US.

Next Science says that case studies have shown that augmenting collagen treatment with Blastx can reduce time for closure in a stalled surgical wound or unhealed pressure ulcer from 12 to 16 weeks, to as little as two to four weeks.

Operating under the DME structure means the company doesn't have to tussle with a hospital's bean counters: the doctor writes the prescription; the company ships the product and puts in an insurance claim and is paid 15 days later.

Giving DFUs the boot

Next Science's durable medical equipment status also allows reimbursement of the company's Foot Defender: "the first protective boot built from the ground up, to address diabetic foot ulcers".

The company says Foot Defender alleviates average contact pressure by up to 50 percent "compared to other protective boots on the market".

In the US there are more than two million cases of diabetic foot ulcers annually and - on a grisly note - more than 100,000 amputations.

Tackling joint infections

Since launching Xperience in April 2021, the company has been building a cache of research to prove the product's infection-preventing credentials. The biggest effort is a 7,600-patient pivotal trial using Xperience to treat periprosthetic joint infections (post hip or knee surgeries).

Based at the Ottawa Research Institute, the investigator-led study tests the efficacy of Xperience relative to diluted Betadine up to 90 days post-surgery. The first 88 patients have been enrolled in the first site.

In Canada, authorities approved Xperience for surgical irrigation, but according to former CEO Ms Mitchell said they first had to be convinced the product was "a medical device and not a form of cannabis".

Well, we are talking about joint healing …

Finances and performance

Next Science sales are growing strongly: with half-year revenue up 87 percent to $US10.1 million.

One reason is management's emphasis on direct sales, which increased 226 percent, to $US7.2 million. Faster and more profitable, direct sales now account for 72 percent of the company's sales, compared with 42 percent a year ago.

Wound care sales (collagen/Blastx) climbed six-fold, while Xperience (surgical) sales rose 65 percent.

Next Science also struck its first group purchasing order (GPO) contract with Healthtrust, enabling access to 1,600 US hospitals.

The company reported a half-year deficit of just under $US8.6 million compared with a $US7 million shortfall previously.

Mr Hall said the company planned to be profitable in 2024.

Meanwhile, the $12 million placement was struck at 42 cents per share.

Mr Hall said $2.9 million of the funds raised would be used to support the group purchasing order contract - with an expected payback of five to 10 times its investment.

Up to $4 million will be earmarked for expanding the durable medical equipment business from private clinics to high-volume wound care centres, long-term acute care centres and skilled nursing facilities.

In an accompanying measure, the Walker Group has agreed to convert $10 million of convertible notes into shares.

Over the last 12 months, Next Science peaked at 83 cents in mid-February 2023 and currently are trawling their lows. The stock hit an all-time high of $1.97 in late May 2021.

Meanwhile, management has guided to revenue of between $US16 million and $US19 million for the current (second) half.

Most pertinently, the company expects to be earnings before interest, taxation, depreciation and amortization (Ebitda) and cash flow positive and self-sustaining in 2024.

No doubt out of an abundance of caution, broker Wilsons plugs in a $7.3 million Ebitda loss in 2024, abating to a $2.7 million deficit in 2025.

Dr Boreham's diagnosis:

Mr Hall says: "We have had a really strong six months which sets us up for the rest of the year to generate positive results."

He adds: "We are addressing a market with significant unmet needs, presenting significant commercial tailwinds for the business over the short and long term."

One potential headwind is that Next Science hasn't escaped the attention of rival wound care companies, who are keen to hose down the company's prospects.

In the broad global wound care sector - and we're talking broad - the biggest players include Abbvie, 3M Co and Becton Dickinson and Co.

On the ASX, Next Science “competes” - for investor attention at least - with Polynovo, Aroa Biosurgery and Avita. Polynovo shares surged this week after the company provided a crowd-pleasing sales update.

Ahead of her departure, Ms Mitchell likened initial revenues from the durable medical equipment structure to a modest creek: “We are not quite a river, but a tributary.”

Furthering the alluvial analogy, the company’s sales momentum should have a cascading effect.

While the company’s current share performance is disappointing, investors ultimately should be awash with money as the company paddles hard to achieve its stated mission of “healing people and saving lives”.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. When he complains about his various war wounds to family and friends the response is “cry me a river”.