



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Painchek

**By TIM BOREHAM**

**ASX code:** PCK

**Share price:** 2.8 cents

**Market cap:** \$36.3 million

**Shares on issue:** 1,297,989,542

**Financials (Year to June 2023):** revenue \$1.95 million (up 99%), loss of \$7.57 million (\$5.72 million deficit previously), cash of \$2.51 million (down 59%)

**June quarter 2023:** revenue \$605,000, customer receipts \$737,000, cash outflows \$549,000, cash on hand \$2.51 million, quarters of available funding 4.6

**Chief executive officer:** Philip Daffas

**Board:** John Murray (chair), Mr Daffas, Ross Harricks, Adam Davey, Cynthia Payne

**Identifiable major shareholders:** Peters Investments 9.1%, J+E Consulting 2.9%, Kreshnik Hoti 2.9%, Mustafa Abdul Wahed Atee 2.9% Philip Daffas 1.7%.

Drug developer Mesoblast's recent epic fail with the US Food and Drug Administration (FDA) has prompted moments of introspection for other ASX-life science plays due to front the feared regulator with approval applications.

In the case of the stem cell therapy developer, Mesoblast had all the right vibes that the FDA would approve its marketing application for its paediatric graft-versus-host disease therapy.

But it was knocked back for a second time.

Painchek chief Phil Daffas isn't taking anything for granted as the pain management monitoring company readies a small clinical trial to support its planned FDA entreaty under the de-novo (new device) route.

Still, Mr Daffas would be mightily surprised if the regulator said no, given the low-risk nature of the tool that is widely used in aged-care centres here and in the UK.

"The [device] protocol has already been refined three times with FDA inputs," he says.

Expected by mid-2024, FDA clearance would expand Painchek's addressable market by two million beds, compared with around 600,000 beds currently.

### **We're the voice**

Painchek's eponymous device is an algorithmic-based tool to measure the level of pain experienced by non-verbal older people, typically those suffering dementia.

"We give a voice to people who cannot reliably verbalise their pain," Mr Daffas says.

By profiling the patient's face, within three seconds, the software application comes up with a pain score based on nine facial expression measures.

These facial scores add to a manually-derived checklist, based on the Abbey pain scale developed by Adelaide pain-ologist Dr Jennifer Abbey.

Mr Daffas equates the tool to a digital thermometer replacing the old mercury one: the purpose is the same but the new version works better.

"In effect we have taken the Abbey pain scale and automated the facial assessment aspect and built on observational pain assessments."

As an adviser to the company, Dr Abbey is evidently unfazed at the prospect of redundancy.

So far, Painchek has recorded more than three million pain assessments, which enables analytical reports to be provided to the nursing homes.

"They can track pain management across all of their facilities and use it for auditing and accreditation purposes," Mr Daffas says.

## **From lab bench to nursing home**

Painchek was called Epat Technologies - as in Electronic Pain Assessment Technologies - which was vended into ASX-listed gold explorer Minquest in 2016.

Epat was founded in 2010, based on a Curtin University research project and the company changed its name to Painchek in early 2018.

Mr Daffas had a three-decade career in health diagnostics and devices, notably at Roche and Cochlear.

“The uni approached me and asked whether the project was commercial and scalable and we worked with the research team to build the model,” he says.

“I bring to the table the experience of being able to globalise a business, which most Australians don’t have.”

Several members of the Curtin University project have stayed for the ride, including Painchek chief scientific officer Jeff Hughes.

In 2017, company won Australian Therapeutic Goods Administration (TGA) and Conformité Européenne (CE) mark approval. These gatekeepers then approved a newer version called Painchek Universal, which can be used on all patients (not just non-verbal ones).

## **Shed the meds**

Mr Daffas says that at least 60 percent of aged care residents cannot reliably communicate their pain levels, because of cognitive impairment.

Often these residents act aggressively or strangely, but this could be because of uncommunicated pain. As a result, anti-psychotic drugs and sedatives are often inappropriately dispensed.

“If you can diagnose the pain first and treat it, you can often change the behavior,” he says.

The operator of 24 homes and 1,300 beds, Orchard Care in the UK Midlands reduced anti-psychotic medication use by 10 percent by using Paincheck, with a 30 percent reduction in sedative dispensing.

In some cases, Painchek has determined that pain can be less than what had been assumed, resulting in lesser use of constipation-inducing opiates - and laxatives.

With ‘verbal’ patients, the Painchek Universal iteration is handy for digitally recording pain improvement (or otherwise).

## **Where there's pain, there's gain ...**

Painchek already has a decent foothold in the Australian aged care sector, claiming a circa 25 percent market share.

Drilling down a little, the company so far has signed up 700 aged care facilities accounting for 50,000 beds, in a total market of around 220,000 beds.

The clients pay a subscription of \$50 per bed per year and can carry out as many assessments as they like.

In the UK, the company has gone from 5,000 beds to 20,000 beds across 300 aged care homes in the last 12 months, in an overall market of 440,000 beds.

“That's less than five percent of the market, but there's no reason why we also can't get to 25 percent of the UK market in a similar time frame as we did in Australia,” Mr Daffas says.

Painchek also has a presence in New Zealand and Canada.

## **Standing on our own two feet**

Investors idly perusing Painchek's numbers might get the impression the company has gone backwards, as it covered around 80,000 beds in Australia two years ago.

The reason is that in 2019 the Federal Government provided a \$5 million grant to fund 100,000 beds for patients with dementia or cognitive impairment, with the contract then extended to June 2021.

With these subsidies long gone, Mr Daffas is pleased that so many clients agreed to continue to roll-over their contracts on a user-pays basis.

Painchek's clients range from having 40 beds to more than 3,000 beds, but market consolidation means the typical client is getting bigger.

Local users include Baptistcare, Allity, Ozcare and Anglicare.

## **Partnering in the US ...**

To support its FDA application, Painchek will carry out a small study of about 100 aged care patients who reflect the country's racial make-up.

The study will be done by a contract research organisation at between five and 12 nursing homes in three states.

Post-approval, Painchek's sales representatives can't just rock-up to the facilities and do the hard sell: they won't get far if the devices are not integrated with the provider's established care-management systems.

Recognising this, Painchek has struck an agreement with aged care supplier Point Click Care to integrate the software with one million US aged-care beds.

"They are the care-management system provider that documents the patient records and information," Mr Daffas says.

"If you do a pain assessment at any of their facilities it documents automatically into their system.'

Painchek has also a non-exclusive tie-up with pain specialist Ethos Labs, by which Ethos will sell Painchek at the point-of-care via its own sales force.

Painchek also has a compact with Intersystems, a provider of 'middleware' to hospitals in the US, the UK and here.

### **And elsewhere ...**

Painchek has integration agreements with 10 intermediaries including Telstra Health and Leecare Solutions in Australia. Both of these providers cover about 40,000 beds.

Mr Daffas says the local integrators provide a "pathway" to 180,000 beds, while the UK providers cover 285,000 beds.

"So, in effect we have less than 10 percent of the beds in the UK relative to what these groups could allow us to access," he says.

### **Easing the pain for parents**

Parents of infants often don't know whether the little one is howling because of pain or because they are hungry or tired (or many other possible reasons).

"They can test for fever with a thermometer, but they can't test for pain," Mr Daffas says.

Painchek has been working on an infant software application that would remove the guesswork, by applying the facial scan in a similar way to aged-care patients.

An interesting tweak is a vocalisation feature that can distinguish whether the howl is a "cry of pain or not pain".

This means Painchek potentially could be incorporated into baby monitors, thus opening a huge new market.

Mr Daffas says the algorithm was 'trained' on kids undergoing painful procedures, such as vaccinations.

"We weren't beating them up," he assures us - quite unnecessarily, of course.

## **Finances and performances**

Painchek recorded \$604,000 of customer revenue in the June 2023 quarter, six percent more than the March stanza and 81 percent higher year-on-year.

Annual revenue doubled to \$1.95 million, with receipts up 90 percent to \$2.24 million.

Annual recurring revenue (ARR) doubled to \$3.4 million, with a retention rate of 85 percent.

The company recorded net cash outflows of \$6.3 million for the year and \$549,000 for the quarter.

At the end of June, Painchek had a skinny cash position of \$2.5 million and the company "will raise more funds at the appropriate time".

Mr Daffas says signing up to 180,000 to 200,000 beds would get the company to break-even level.

If the company achieved 50 percent of the Australian and UK markets - roughly 100,000 beds and 220,000 beds respectively - the company would be comfortably profitable.

"All the rest is gravy," Mr Daffas says - not a reference to nursing home food but the high profit margin on the product.

Painchek shares peaked at 35 cents in 2019 on the back of the Federal Government grant, but are wallowing near record lows. However, the shares have held their ground over a torrid 12 months for the sector.

## **Dr Boreham's diagnosis:**

Mr Daffas describes Painchek as the most popular digital clinical tool in Australia - and we can't argue with that.

"We have had a wonderful year," he says. "There is no Federal Government funding overhang and it is all pure commercial business now."

The company estimates the global aged-care market at six million beds, worth \$300 million annually.

But the home care sector could be worth 10 times more than that, while management sniffs a \$1 billion opportunity in the hospital sector. The infant market will be child's play if it pans out as expected.

Meanwhile, Painchek is not pained by a rival: the real competition being the old paper-based pain assessment tools.

While the coast is clear, the company needs to go hard on the opportunities before inevitable competition emerges.

Fundamentally, the Painchek story is simple and the benefits of the device are crystal clear - especially relative to the modest cost for aged-care operators relative to other burdens.

As with all device plays, commercial success will come down to the right execution such as choosing the right partners and geographies.

There will be pain along the way, but we are confident the company can grin and bear it.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. When he is pain, it will be clearly enunciated and everyone will know about it.***