



Biotech Daily

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Daily news on ASX-listed biotechnology companies

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MARKET REPORT

The Australian stock market fell 1.16 percent on Friday October 20, 2023, with the ASX200 down 80.9 points to 6,900.7 points. Just five of the Biotech Daily Top 40 stocks were up, 23 fell, 11 traded unchanged and one was untraded.

Today's best, Patrys, continued its ASX roller coaster ride, up 0.1 cents or 14.3 percent to 0.8 cents, with 1.4 million shares traded. Genetic Signatures climbed 5.3 percent; Mesoblast rose 2.7 percent; Amplia was up 1.2 percent; with Emvision and Resmed up by less than one percent.

Cynata led the falls, down 1.5 cents or 11.1 percent to 12 cents, with 7,850 shares traded. Volpara lost 9.5 percent; Telix fell 8.7 percent; Impedimed was down 7.7 percent; Polynovo and Universal Biosensors were down more than five percent; Atomo, Opthea and Paradigm fell more than four percent; Clinuvel, Compumedics, Micro-X and Next Science were down three percent or more; Cochlear, Cyclopharm, Kazia, Nanosonics and Proteomics shed more than two percent; CSL, Medical Developments, Neuren, Orthocell and Pro Medicus were down more than one percent; with Avita and SDI down by less than one percent.

DR BOREHAM'S CRUCIBLE: PRO MEDICUS

By TIM BOREHAM

ASX code: PME

Share price: \$78.16; **Shares on issue:** 104,455,279; **Market cap:** \$8.16 billion

Chief executive officer and co-founder: Dr Sam Hupert

Board: Peter Kempen (chair), Dr Hupert, Anthony Hall (co-founder), Anthony Glenning, Dr Leigh Farrell, Deena Shiff, Alice Williams

Financials (Year to June 30 2023): revenue \$124.9 million (up 33.6%), underlying profit before tax \$83.88 million (up 34.5%), net profit \$121.5 million (up 36.5%), full year dividend per share 30 cents (up 36%), cash and investments \$76.2 million (up 23%)

Identifiable major shareholders: Dr Sam Hupert 25.03%, Anthony Hall 25%.

When it comes to investor perceptions of Pro Medicus, chief executive and co-founder Sam Hupert often feels he can't win.

According to Dr Hupert, the US-focused diagnostic imaging company did things backwards by first winning 'sandstone' academic hospitals – the Mayo Clinic, Yale, New York University, University of California and Harvard's Massachusetts General Hospital.

"Most companies start off small and then get a few regional sites and maybe they get one or two of those really top names," he says.

Investors then had the impression Pro Medicus didn't do much outside of the 'sandstones' - especially among the integrated delivery networks (IDNs) that account for the lion's share of US hospitals. "The market said 'you only work in the big end of town' but then we won a whole lot in the middle market. They then said 'have the big ones gone'?"

Last month, the company assuaged the doubters by signing its biggest client, the Texas-based IDN Baylor Scott & White Health (BSWH) in a \$140 million deal over 10 years. The first Texan client, BSWH has 5,000 licensed beds at 51 hospitals.

In reality, the difference between a 'sandstone' client and a not-for-profit IDN is not black and white. "An IDN can be large and sophisticated, the only difference is they aren't part of a university medical teaching school," Dr Hupert says.

No matter the definition, Pro Medicus has hit a purple patch, winning four IDNs in the last 12 months and all of them for more than one product, and characterised by software-as-a-service with annuity revenue based on minimum transaction levels.

The 'sandstones' aren't forgotten, either: in July, Pro Medicus signed Memorial Sloan Kettering Cancer Centre in a \$24 million, seven-year deal, by which the New York house of healing uses the full suite of the company's offerings.

A home-grown hero

Pro Medicus provides diagnostic imaging, practice management and image archiving software to radiology practices, and was founded by Melbourne general practitioner Dr Hupert and his technologist friend Anthony Hall in 1983.

The company is mainly involved in the 'viewing' part of the chain: enabling clinicians to call up the images quickly and make better use of them.

Pro Medicus has surfed the burgeoning data requirements for modern imaging techniques such as high-density multi-slice computed tomography (CT) scans, high density breast tomo-synthesis, opto-acoustic breast ultrasounds and total body scans.

The company's key products are Visage RIS (as in radiology information system) and the cornerstone Visage 7 (enabling users to consolidate information requiring multiple views into a customized single platform). The image storage tool Visage Open Archive was introduced in 2017, with Visage Workflow Management emerging in 2020.

In 2019, Pro Medicus acquired the California based Visage Imaging for a knock-down \$5 million. Executed during the global financial crisis, this deal turned out to be the bargain of the century as the Visage products are now the company's core offering.

Finances and performance

In a year of records, Pro Medicus posted a net profit of \$60.6 million, 36 percent higher, on revenue of \$125 million (33.6 percent higher).

Of the revenue, \$97.3 million (or 78 percent) derived from capital sales, compared with only \$67.5 million the previous year. The US accounted for 83 percent of revenue. The minor components of support and services income are growing less quickly, but the company cites forward revenue of \$468 million over five years.

The BSWH contract is worth \$140 million over 10 years and a minimum \$14 million a year, which broker Goldman Sachs estimates is more than five times the size of the average contracts won by the company to date.

Broker Wilsons coos that BSWH is the "perfect example" of a new client: "a not-for-profit health network, with a prominent market position, in metropolitan centres [and], demonstrating willingness to invest in [information technology] infrastructure."

More of a gesture than anything, the company dispensed a final dividend of 17 cents per share, taking the full year payout to 30 cents (36 percent higher). With no debt and \$121 million in cash and investments, Pro Medicus won't be capital raising any time soon.

The Pro Medicus share price has grown steadily, having been \$1.45 in 2015 when Biotech Daily first began covering the company and around \$10 in October 2018. The shares were around \$52 in October last year and peaked at \$83.91 on October 2 this year.

The company listed in October 2000 - yep, October is a big month for the company - at \$1.15 apiece.

Head in the clouds

Depending on the sector, Pro Medicus competes with a range of competitors but the company rarely sees its ASX-listed peer, Mach7, vying for the same jobs.

Traditional rivals include equipment vendors such as GE Health, Siemens and Philips and the erstwhile camera film makers Agfa, Fujifilm and Carestream.

Dr Hupert says Visage can be adapted to suit different clients of different sizes and is the only genuine internet cloud-based tool available. He believes the company has not made an on-premises installation (that is, of traditional hardware) over the last three years.

“Three of four years ago in the US if you mentioned ‘cloud’, everyone would look at you blankly,” he says.

“The whole argument has flipped on its head, because people now realise the cloud is not only more scalable, but far more secure.”

Supporting cardiology

In its first promised expansion into the ‘ologies,’ Pro Medicus expects to release a cardiology product - in effect a tweaking of Visage - “in the next few months”.

In field-testing phase, the tool will support cardiac ultrasounds.

“The company has been able to fill-in the feature functions over and above what radiologists require,” Dr Hupert says.

“We do literally millions of ultrasounds a year, but the highly specific cardiac ones require a super set of measurements.”

He also notes the increased popularity of cardiac computer tomography (CT), as an alternative to a stress test (putting the patient on a treadmill or bike) or an invasive cardiac angiogram.

“X-ray type modalities and equipment are being used more and more in cardiology,” he says.

While radiology and cardiology systems are separate, there is much crossover in terms of who does what.

“Radiologists often do cardiac CTs ... so it makes sense that the one system can be used ubiquitously across both disciplines,” Dr Hupert says.

Futurologist didn't predict getting it wrong

Ironically, a fear of artificial intelligence (AI) has created an acute global shortage of radiologists.

"Five years ago, a futurologist predicted there would be no need for radiologists in five years' time and - guess what - he was wrong," Dr Hupert says.

He attributes the dearth of radiologists to fewer doctors taking radiology training, for fear they won't have a job when they have qualified. Others are suffering burnout because of the huge increase in imaging volumes.

Dr Hupert says AI has created both hype and fear in the profession.

"We are now at the tail end of the disappointment phase that always follows a hype phase," he says.

"Reality is setting in. We will see practical uses for AI in diagnostic imaging, but then the question is how to commercialise it. There's limited reimbursement at this point, but that will change."

Dr Hupert says by "good fortune or foresight" Visage is the only fully AI capable platform of its peers.

Putting AI to use

Pro Medicus already has a breast density algorithm, which has been cleared by the US Food and Drug Administration and should be commercialised in the next few months.

Imaging of 'dense' breasts is far more difficult than scanning 'fatty' breasts because both the tumor and the background come out as white on the image. It's like finding the proverbial rabbit in a snowstorm.

"Data shows that algorithms can be just as accurate as a human, if not more accurate," Dr Hupert says.

In Australia and Europe, all breast screening is read by two separate radiologists, with a third radiologist adjudicating if there's a difference of opinion.

In the US, it's up to the one radiologist. So, AI can eliminate the need for a second human reading here, or become a reassuring tool for US breast radiologists.

Another use for AI is in procedures such as ultrasound and chest x-rays: if the patient moves, the AI will deem the image to be substandard and either correct it, or notify the operator.

"Those sorts of use-cases are very compelling and AI is becoming sophisticated and accurate enough to be used in the not-too-distant future," Dr Hupert says.

Glass half full?

Pro Medicus currently boasts 'only' a seven percent share of the US market, as measured by the 500 million or so exams carried out there annually.

"We may only have seven percent of the market but it is all about the clients who make up this seven percent - including nine of the top 20 teaching hospitals," Dr Hupert says.

Dr Hupert notes emerging activity in the private hospital sector, which has been in "deep freeze" because of the large number of merges and acquisitions.

"We have a strong pipeline with a variety of opportunity across different markets and different sized clients," he says.

Pro Medicus also has a weather eye on Europe, especially in Germany where it conducts research and development for Visage.

Dr Hupert says most health services in Europe are government-funded and very bureaucratic. European hospitals are less advanced in embracing the internet 'cloud' "but we think that will change and that could be an entry point for us."

In Australia, Pro Medicus sells its original RIS (radiology information system) to the private sector, having signed contracts with Lumus (Primary Healthcare and I-Med).

Dr Boreham's diagnosis:

With an \$8.7 billion market valuation, Pro Medicus eventually may rival the ASX life sciences Three Big Caps - CSL, Resmed and Cochlear - in size. (The smallest, Cochlear, has a \$16 billion market capitalization.)

Not everyone is convinced about the company's growth prospects. Research house Morningstar claims Pro Medicus should be worth less than half its current value. The normally diplomatic Morningstar says Visage 7 has been popular with academic hospitals "with large endowments and greater interest in advanced visualisations and AI".

The trouble is, these features are "largely superfluous outside of the academic hospitals market and [we] expect wider adoption to continue to be slow".

Fair enough - but the Baylor Scott & White Health deal suggests that, outside of the 'sandstones' Pro Medicus' prospects remain bigger than Texas.

In the meantime, Dr Hupert says Pro Medicus won't rest on its laurels in terms of rolling out new products to new markets.

"In software there are only two states: quick and dead and you don't want to be dead."

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He's not particularly quick but is happy to report he still has a pulse.

NEUREN PHARMACEUTICALS

Neuren says it has posted maiden receipts from customers for the nine months to September 30, 2023 of \$210,889,000.

Neuren said receipts from customers came primarily from royalties on sales of its trofinetide, or Acadia Pharmaceuticals' Daybue, treatment for Rett syndrome, including a \$US100 million (\$146 million) up-front payment from Acadia.

In March, the company said that the US Food and Drug Administration had approved Daybue/trofinetide for Rett syndrome and in July, Neuren said Acadia paid \$US100 million to expand its licence to a worldwide agreement (BD: Jul 27, 2023).

Neuren chief executive officer Jon Pilcher said the company was "highly encouraged by the early uptake and impact of Daybue in the US Rett syndrome community following the exceptional launch by Acadia".

"Our revenues and cash flow from Daybue are growing strongly as we approach a key value inflection point for NNZ-2591 in December, with the first results from treatment of children with Phelan-McDermid syndrome," Mr Pilcher said.

Neuren said it had a positive cash flow of \$135,293,000 for the three months to September 30, 2023, with cash and cash equivalents of \$230,394,000 compared to \$27,292,000 in the previous corresponding period.

Neuren fell 19 cents or 1.65 percent to \$11.30 with 596,913 shares traded.

ATOMO DIAGNOSTICS

Atomo says UK's Tesco supermarkets are selling its HIV rapid-self-test, it has expanded its Newfoundland deal to Columbia and free tests will be distributed in Australia.

In June, Atomo said it had a one-year, at-least \$2.1 million exclusive supply deal with London's Newfoundland Diagnostics for its HIV test in Europe (BD: Jun 14, 2023).

Today, the company said Newfoundland had committed to a further 220,000 units before 2024, taking the total for the year to 440,000 units ordered.

Atomo said the contract included the provision for a two-year extension with increased annual volume commitments.

The company said that "although the revenue impact is unknown at this stage, the offering at scale of the HIV self-test in Tesco stores is considered to be material from a commercial and growth perspective, given the size of Tesco's market reach in the UK".

Atomo managing-director John Kelly told Biotech Daily that the Tesco supermarket chain had begun a progressive roll-out of the HIV rapid-self-test at its UK supermarkets.

Mr Kelly said that before the Covid pandemic, Tesco had not been involved in supplying medical diagnostics.

The company said it and Newfoundland had amended their supply and distribution agreement to include the Republic of Colombia in South America, with an initial commitment for 30,000 units expected to support launch late in 2023-'24.

Atomo said Australian sales continued to clinics and pharmacies and that the National Association of People with HIV Australia had launched a program to distribute up to 12,000 free Atomo HIV self-tests to communities that were either over-represented in late diagnoses or under-represented in testing data across Australia.

Atomo said it continued to "see interest from a number of state health departments with regards to the implementation of vending machine programs based on successful [pilot programs] run in South Australia and Queensland with public health rollout anticipated later in 2023-'24".

Atomo fell 0.1 cents or 4.2 percent to 2.3 cents.

CHIMERIC THERAPEUTICS

Chimeric says it requested a trading halt pending an announcement of “new data for phase Ia [chlorotoxin chimeric antigen receptor T-cell] brain cancer clinical trial”. Trading will resume October 24, 2023, or on an earlier announcement. Chimeric last traded at 2.8 cents.

STARPHARMA HOLDINGS

M&G Plc and its subsidiaries say they have reduced their substantial shareholding in Starpharma from 27,859,212 shares (6.81%) to 20,747,400 shares (5.05%). The London-based M&G Plc said that M&G Investment Management Funds sold shares between February 9, 2023 and October 18, 2023 with the most recent sale of 811,630 shares for \$120,373, or 14.9 cents a share (BD: Oct 16, 2023). Starpharma was unchanged at 13 cents.

CURVEBEAM AI

Curvebeam says its annual general meeting will vote to issue 218,750 zero-exercise price options (Zepos) and 341,757 share rights to its directors. Curvebeam said executive director Arun Singh had chosen to receive 268,840 share rights under his short-term incentive plan instead of \$US69,325 (\$A109,803) in cash, on-top of his \$US295,000 (\$A467,000) annual pay. The company said shareholders would vote to issue director Rob Lilley 72,917 share rights and issue 109,375 zero-exercise price options each to directors Hashan De Silva and Kate Robb, exercisable at 0.0 cents each, within six years of issue. Curvebeam said Mr Lilley received \$130,000 in annual pay and that Mr De Silva and Ms Robb were paid \$50,000 a year. Curvebeam said the meeting would vote to accept its financial reports and elect directors Mr Lilley, Mr Singh, Mr De Silva and Ms Robb. The meeting will be held virtually on November 22, 2023 at 9am (AEDT). Curvebeam fell 1.5 cents or 4.2 percent to 34.5 cents.

ADALTA

Adalta says investors will vote to issue 11,900,000 options to chair Dr Paul MacLeman managing-director Dr Tim Oldham and directors Dr Robert Peach and Dr David Fuller. Adalta said the annual general meeting would vote to issue Dr Oldham 5,600,000 options, Dr MacLeman 2,800,000 options and Dr Peach and Dr Fuller 1,750,000 options each, with all options to be exercisable at the 20-day volume weighted average price calculated at November 22, 2023 and expiring on November 22, 2027. The company said the options were additive to each director’s salary, and that Dr Oldham was paid \$343,844 a year, Dr MacLeman received \$75,000 in annual pay and Dr Peach and Dr Fuller’s annual salary were \$50,000 each. Adalta said the meeting would vote to adopt the remuneration report, re-elect Dr Fuller, issue 1,944,445 shares to Grannus Securities, 524,515 shares to Spark+ and 15,000,000 options to Peak Asset Management, as well as approve its 10 percent placement capacity. The meeting will be held online and in-person at Piper Alderman, Level 23, 459 Collins Street, Melbourne, on November 22, 2023 at 11am (AEDT). Adalta fell 0.1 cents or four percent to 2.4 cents.

CLARITY PHARMACEUTICALS

Clarity says its annual general meeting will vote to issue 2,693,969 options to chair Dr Alan Taylor and managing director Dr Colin Biggin and increase the director fee pool. Clarity said shareholders would vote to issue Dr Taylor 1,764,981 options and Dr Biggin 928,988 options, with 1,134,630 Dr Taylor options and 557,393 Dr Biggin options exercisable at 79.3 cents each within five years from grant, with the balance exercisable at 72.1 cents each within five years, pending performance criteria.

The company said the options were in addition to Dr Taylor's \$620,601 yearly salary and Dr Biggin's \$450,101 annual pay.

Clarity said the meeting would vote to increase the total directors yearly cash fee pool by 40 percent from \$500,000, which was the amount in place at the time of its ASX listing in 2021, to \$700,000.

The company said it decided to increase the fee pool after an independent benchmarking review "determined that the remuneration of [its] ... directors was well below market median" and recommended that it increase remuneration "via a phased approach".

Clarity said shareholders would vote to adopt its remuneration report and re-elect directors Cheryl Maley and Dr Taylor.

The meeting will be held at the Ground Floor Seminar Room of the National Innovation Centre, 4 Cornwallis Street, Eveleigh, Sydney on November 23, 2023 at 10am (AEDT). Clarity fell three cents or 2.9 percent to \$1.02.

GENETIC TECHNOLOGIES

Genetic Technologies says its annual general meeting will vote on a 100-to-one stock consolidation.

Genetic Technologies said the consolidation would reduce its share pool from 11,541,658,143 shares to 115,416,582 shares, and its ratio of Australian shares to American depository shares would be reduced from 600-to-one to six-to-one.

The company said that if approved it intended to have a consolidation record date of November 27 with post-consolidation trading to begin on December 5, 2023.

Genetic Technologies said shareholders would vote to adopt the remuneration report, re-elect directors Peter Rubinstein and Dr Lindsay Wakefield, approve its increased placement capacity, ratify the issue of 2,307,693,000 shares to various US institutional investors and issue 250,000 ADS warrants to H C Wainwright (BD: Feb 8, 2023).

The meeting will be held online and in-person at K&L Gates, Level 25, 525 Collins Street, Melbourne, on November 22, 2023 at 10am (AEDT).

Genetic Technologies was up 0.05 or 25 percent to 0.25 cents with 1.8 million shares traded.