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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Vitura Health

By TIM BOREHAM

ASX Code: VIT

Share price: 14.5 cents

Shares on issue: 575,873,788

Market capitalisation: \$83.5 million

Chief executive officer: Rodney Cocks

Board*: Robert Iervasi (chair), Dr Marcia Walker, Mr Cocks, Guy Headley, Janelle Frewen

* Mr Iervasi replaced Dr Walker as non-executive chair in February 2024. Dr Simone Scovell was appointed to the board in September 2022 but resigned in September 2023

Financials (half year to December 2023): revenue \$59.97 million (up 4%), net profit \$3.3 million (down 57%), cash balance \$13.0 million (down 31%), bank debt \$6.21 million (up 100%)

Key identifiable shareholders: Dr Ben Jansen 20.71%, Dr Matua Hasyo Charles Jansen 8.55%, Cronos Global 10%, Regal Funds Management 5.8%.

While the use of medicinal cannabis in Australia soars, the benefits are not being felt by the ASX-listed pot stock sector which is struggling to maintain investor interest.

Late last year BOD Science ceded to financial reality and called in the administrators, while the ASX-suspended Cann Group is in a world of pain.

In a paddock of weeds - metaphorically and literally speaking - Vitura is the tall poppy with its model of matching patients, prescribers and suppliers on the one platform.

Formerly known as Cronos Australia, Vitura is in the rare position of producing revenues, profits ... and dividends.

And no - we are not smoking anything!

The company has now expanded into the burgeoning tele-health field, having acquired the private Doctors on Demand platform last October.

“Tele-health was really only used [for remote communities] but during Covid the behavior changed in terms of clinicians and patients and we are seeing a rapid uptake,” says Vitura CEO Rodney Cocks.

Despite the positives, Vitura’s recent performance (and share price) has been weighed down by intensifying competition. A failed board challenge led by former director – and biggest shareholder – Dr Ben Jansen hasn’t helped, either (see below).

About Vitura

Vitura’s core Canview platform links more than 1,400 authorised marijuana prescribers (mainly general practitioners), 4,200-plus dispensing pharmacies and more than 11,000 regular patients. The platform sources around 350 products from 40 local and Canadian suppliers.

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

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

Cronos had planned to build a cannabis manufacturing facility, but in September 2021 it merged with CDA Health Pty Ltd – founded by Dr Jansen - in a cash-scrip deal.

CDA – as in Cannabis Doctors Australia - operates under a full tele-health model nationally.

In February 2023, the company became Vitura Health, to emphasise the move to a digital platform and away from a cannabis pure-play.

If Mr Cocks’ name sounds familiar, you’re right: he 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.

Dial-a-quack, not so big bill

Doctors on Demand was founded by Mt Isa pharmacists John Martin and John Neilson, to address the regional town's poor access to healthcare services.

That was back in 2015, well before the Covid-era when the notion of dial-a-doc was a bit quackers.

Doctors on Demand facilitates around 300,000 consultations a year and derives revenue from services to companies such as remote miners and health insurers.

Currently, Doctors on Demand doesn't have a huge presence in cannabis: the nature of the consultations (and prescriptions) mirrors that of traditional clinics.

The service also includes peripherals such as 'smoking cessation' (nicotine vaporizers) and medicated weight loss.

Doctor, doctor tell me the truth

... do I really need to see you in person?

Mr Cocks reckons 50 to 70 percent of general practitioner visits could be satisfied via tele-health - notably bog-standard repeat scripts. He also questions why anyone would opt to spend time with diseased patients in a waiting room to see a doctor who invariably is running late.

"It can be a two-hour ordeal just to get a script and you can do that in a matter of minutes [online]."

For general practitioners - especially younger ones – tele-health offers Uber-style flexibility as they can work when and where they like (although the backdrop of a golf course or a strip club would not be a good look).

A little-known factor driving tele-health is a crack-down on 'sham' doctor contracts with the physical clinics, by which the doc works full-time but is deemed to be a contractor. Payroll tax has not applied in these cases, but the cash-strapped state governments are on to it ... big time.

The cannabis landscape

Australians have taken to medical marijuana (or medicinal cannabis) with aplomb: the industry grossed about \$244 million in revenue in 2022, with revenue increasing 41 percent from the first half of the year to the second.

Anecdotal evidence suggests the illicit market is many times larger, and a recreational market opportunity.

In December, the Office of Drug Control said that Australian medical marijuana companies produced 24,900 kilograms of marijuana in 2022, up from 16,700kg in 2021.

(We thank Biotech Daily's cannabis correspondent Peter Olszewski – a.k.a. J.J. McRoach – for those insights).

On anonymized patient data, 80 percent of prescriptions were for chronic pain and as an alternative to opioids.

Mr Cocks says the typical patient is a female in her 50s who has never touched the devil's lettuce previously. Of course, an unknown number of folk are accessing illegal dope for medicinal purposes (stay clear of Aunt Dora's hash brown cookies if you are driving).

Vitura reports most of the medication sold via the platform is whole flower bud (ground and vaporised), as opposed to extracted oils. Given the substances predominantly are used for pain, it's a fair bet that most of them contain the psychoactive ingredient tetrahydrocannabinol (THC).

Psychedelics, qu'est-ce que c'est?

With apologies to Talking Heads, Vitura isn't exactly running - fa-fa away - from the emerging opportunities in psychedelic medicine.

In May 2023, the company formed a joint venture called Cortexa, with Canada's Pharmala Biotech. Cortexa taps the strength of Vitura's distribution with Pharmala's drug manufacturing capabilities.

The initiative takes advantage of the recent liberalization of research-based psychedelic use, pertaining to MDMA (3,4-methelene-dioxy-meth-amphetamine, also known as Molly) and psilocybin (aka magic mushrooms).

Unlike 1960s hippy houses, the mind-bending substances are only dispensed under the watchful eye of a psychiatrist.

"Based on the research to date [psychedelics] have a lot to offer, for post-traumatic stress disorder and treatment-resistant depression especially," Mr Cocks says. "But it is early days."

Finances and performance

Vitura recorded a sharp 59 percent profit decline in the half year to December 2023, to \$3.12 million. This was attributed to the industry-wide decline in the average selling price, gross margin pressures and costs related to the Doctors on Demand purchase.

"Competition has increased, the market has matured and we are seeing average prices decrease across the board," Mr Cocks says.

One manifestation of this is higher rebates paid to the pharmacy groups - especially the mega ones - as a reward for higher sales.

However, Vitura's key 'vital signs' were positive: record sales of 498,740 units, with the prescribing doctor base increasing by 423 to 1,401. Dispensing chemists on the platform grew by 531 to 4,244.

The company funded the \$25 million Doctors on Demand purchase via an equal combination of cash, equity, debt and vendor finance. The equity component was satisfied by the issue of \$6.25 million of shares to Regal Funds Management, installing the fundie as fourth biggest shareholder.

At December 31, 2023, Vitura had cash of just under \$13 million, having paid a one cent a share dividend (\$5.43 million in total) for the year to June 30, 2023, but no interim dividend. Mr Cocks says the board does not have a set dividend payment policy.

"We are not going to trade-off acquiring or investing in organic growth just to pay a dividend. It will all be done through the lens of creating shareholder value," he says.

Over the last 12 months Vitura shares have traded between 60 cents (early July 2023) and 14 cents (March 7 this year). They peaked at 90 cents in October 2022.

Little birdies in their nests disagree ...

At Vitura's November 2023 AGM, shareholders voted not to elect Dr Jansen and his running mates Nathan Hight and health sector "luminary" Shane Tanner.

As with the Voice, the 'no' vote came in at about 60 percent.

Dr Jansen and Mr Tanner were Vitura directors post the CDA purchase, after four original directors made way. The company's chair, Mr Tanner stepped down in April 2022 and Dr Jansen quit in September of that year.

The Jansen's camp's concerns centred on the means (and effect) of issuing new shares and the terms of performance-based shares issued to Messrs Cocks and Headley (as well as their fixed remuneration).

The board hotly defends the arrangements.

While the challenge was rebuffed, the remuneration report was opposed by 57 percent of holders - presumably the Jansen camp. The rejection threshold for such motions is only 25 percent. If the company receives a second 'strike' at its next AGM, a mandatory board spill vote ensues.

"The [board] remuneration committee consists of independent directors, taking advice of two leading 'rem' experts," Mr Cocks says. "Was this really about rem, or attempting to take control of the board?"

Dr Boreham's diagnosis:

Vitura has a high falutin' strategy manifesto, but it boils down to increasing the doctor and patient numbers across the Doctors on Demand and Canview platforms, as well as adding services.

On a contentious note, one such add-on service is selling nicotine vapes under prescription, allegedly "to support patients on their journey to quit smoking and reduce their dependence on nicotine".

The highly opportunistic move hopes to take advantage of the Federal Government's crackdown on imported nicotine vapes to thwart rampant abuse of the devices among young people.

Management also has a weather eye on overseas markets, notably in the UK and Europe where medical marijuana is subject to similar regulation.

Currently, tele-health accounts for about three percent of the general practitioner market, so there's plenty of upside for Vitura in both the cannabis and traditional sectors. "But we like the Australian market and we think there is a large opportunity," Mr Cocks says.

On a relative valuation note, Vitura paid \$25 million for Doctors on Demand and Wesfarmers shelled out \$135 million for the rival Instantscripts.

So did Wesfarmers overpay, or did Vitura snare a bargain?

Mr Cocks is diplomatic - to a point.

"You will have to ask Wesfarmers that, but we bought well at one times revenue when they paid more like three times revenue."

Despite the depressed share price, Vitura is smouldering along nicely but the company risks being crimped by the ongoing brooding presence of the Jansen camp on the resister.

It's a problem that needs to be resolved, sooner or later.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He is diplomatic – to a point