



# Biotech Daily

Friday July 30, 2021

*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Alcidion

**By TIM BOREHAM**

**ASX code:** ALC

**Share price:** 38 cents

**Market cap:** \$398.3 million

**Shares on issue:** 1,048,069,052

**Financials (year to June 30, 2021):** receipts \$32.0 million, unaudited revenue \$25.6 million to \$25.9 million, positive cash flow \$1.1 million, cash of \$25.0 million.

**Chief executive officer:** Kate Quirke (a.k.a. Katrina Elizabeth Doyle)

**Board\*:** Rebecca Wilson (chairman), Kate Quirke, Prof Malcolm Pradhan, Nick Dignam, Simon Chamberlain

\* Co-founder Ray Blight stepped down from the board on June 30

**Identifiable major shareholders:** Malcolm Pradhan 13.5%, Ray Blight 10.1 %, Caledonia Nominees (Donald Kennedy) 6.1%, Isle of Wight Pty Ltd (Colin MacKinnon) 5.6%, Kate Quirke 4.4%.

When we last covered the hospital informatics provider in June last year, the world was subsumed by the pandemic and the friendless stock traded at 16 cents.

After an "outstanding year of growth" - as described by chief executive Kate Quirke - it's obvious that investing in the shares then should have been a no-brainer.

After all, the pandemic may have been disruptive but it's emphasized the need for hospitals to manage patient flows carefully.

The increased investor interest was highlighted on April 30 this year, when the company abruptly closed a share purchase plan (SPP) three days earlier than scheduled.

The SPP was the second leg of a \$18.4 million raising at 32 cents a share, to fund the GBP5.3 million (\$A9.6 million) acquisition of UK hospital information supplier Extramed.

Investors were severely scaled-back in offer, with punters subscribing for \$30 million of the available \$2.5 million of scrip (later raised to \$3 million).

The raising was a usual case of the institutions getting the cake, with retail holders thrown the crumbs. To be fair though, retail investors need to be more enthusiastic about SPPs and rights issues, or the spoils will go to the big boys able to offer the certainty the funds will be raised.

Coupled with this week's encouraging quarterly numbers, the strength of the raising bodes well for the company's key target market – the Old Dart – and overall capital adequacy.

## **The back story**

Alcidion was founded by director Ray Blight, the erstwhile head of the South Australian Health Commission and Prof Malcolm Pradhan, a general practitioner and health informatics buff.

The company back-door listed in February 2016 having raised \$2 million at 3.1 cents a share. This was on the back of its foundation product Miya, which consolidates clinical data from multiple sources in one spot for the clinicians.

In 2018, the company bought a private mob called MKM Health from a group of ex-Deloitte consultants, for a headline \$12 million.

MKM brought to the table a product called Patientrack, now being rebranded as Miya Assessments and Observations, which ensures that doctors and nurses have the full patient information from different departments.

When it comes to amputating a leg or removing a kidney, it helps to have the diseased one on the chopping block.

MKM's Ms Quirke was anointed Alcidion CEO in mid-2018, with then chairman and executive director Mr Blight stepping back to a non-executive director role.

Mr Blight departed the board altogether on June 30, "in alignment with the board-led renewal and succession planning process".

Notably, MKM has a presence in Britain, which Alcidion is targeting as its preferred expansion geography.

## **Speaking of which ...**

With the addition of Extramed, Alcidion has a 19 percent share of the National Health System trust market - in other words, the major hospitals - across 27 sites.

The Extramed purchase adds six sites Alcidion previously did not access. This means the company has the opportunity to sell Patientrack, Miya or Smartpage to Extramed sites, or Extramed to the existing sites that predominantly use Patientrack.

Ms Quirke says Extramed helps to manage the flow of patients through the healthcare system, "from [emergency department] to inpatient".

"Patientrack is all about nursing care at the bedside," she says. "It aids nurses in delivering their care, while Extramed conceivably could draw on information from Patientrack about the patient's status."

While Patientrack is in-hospital, Miya is focused on out-of-hospital clinical care.

That's emerging as the biggest market, but there's some way to go in terms of integrating the role of general practitioners, external carers, the hospital and - crucially - the payers (government and the health insurers).

The company's assault on British soil is not expected to be hampered by the resignation of the country's Health Secretary and digital health reformer Matt Hancock, who fell on his sword after smooching a colleague in contravention of his own social distancing rules.

## **Elsewhere ...**

Meanwhile Patientrack also boasts a 50 percent share of the New Zealand market.

Good one, bro!

Locally, Alcidion is working on two significant home-care contracts with the Sydney and Murrumbidgee local health districts.

The company is rolling out a product called Virtual Care, which combines information from devices worn at home, with hospital data (for the benefit of doctors and nurses monitoring at-home patients).

Given Virtual Care's obvious benefits during the pandemic, the project was given a wee wriggle-on.

A longer-term prospect is the New South Wales Single Patient Digital Record project, which would involve Alcidion's products sitting alongside existing systems.

"We believe the timing of that is five years before initial deployment," Ms Quirke says.

## **Awaiting defence decision in de near future**

In April Alcidion was named as the preferred provider for an Australian Defence Force (ADF) contract to consolidate the health records of all employees.

This will provide a single view of ADF personnel doctor or hospital visits and mental health consultations: “anything that happens when in the defence forces”.

It all sounds a bit Big Brotherish, but that’s what you sign up for ...

Canberra’s defence mandarins (and oranges) are yet to sign off on the deal, but Ms Quirke reports the approval process is “on track”.

She says the (presumed) contract highlights the ability of Miya Precision to dovetail with other healthcare information platforms in a complex setting.

At the risk of court-martial, Ms Quirke says she can’t say much more.

We won’t get shot at dawn for reporting the job has an estimated total contract value (TCV) of more than \$21 million, over a life of five and a half years.

## **Pesky rivals seek to unglue sticky customers**

Alcidion certainly has competitors, but they vary according to the exact sector and geography.

For instance, Telstra Health is a strong rival in the patient data-flow game. On the Patientrack side, the company competes with the likes of Nasdaq-listed Serna Healthcare (market valuation \$US23 billion) and, in the UK, Nervecentre Software and System C.

With Miya Precision, the rivals are less pronounced.

“It’s very much a market that we’re making ... and we see a larger opportunity at this point,” Ms Quirke says.

She adds that providers are approaching the market from different angles, fuelled by the massive investment in digital data over the last five to 10 years.

In an ASX-listed sense, Alcidion is also compared with the likes of diagnostic plays Mach7 and Pro Medicus, which is a stretch as the only commonality is they’re in the healthcare sector.

Ms Quirke adds that healthcare clients are “very sticky”. This is not a reference to the mess left by spilt gelatinous hospital food, but the propensity of the healing institutions to remain with their current provider.

“It takes a long time to win the deal and a long time to implement it, but then it takes a long time for them to extract you from it as well.”

## **Finances and performance**

On Tuesday, Alcidion released its fourth-quarter (June quarter) results, with the formal full-year disclosure due in August.

Nonetheless, the company reports unaudited revenue of \$25.6 million to \$25.9 million for the year to June 2021, 38 percent to 39 percent higher than previously.

During the quarter, Alcidion chalked up contracted revenue of \$7.3 million, almost double on a year previously. Consisting of both new and renewed contracts, most of this revenue will be recognized in the current financial year.

This takes Alcidion's running tally of contracted revenue to \$15.1 million, \$10.9 million recurring. A further \$2.9 million is expected from routine renewal of existing contracts.

"The Australian market has been a little slower in the past six months because of Covid but I'm very excited where the pipeline is heading," Ms Quirke says.

Alcidion was also cash flow positive in the June quarter, to the tune of \$1.6 million, taking full-year cash flow to \$1.1 million.

The company has had other profitable quarters, but Ms Quirke warns there will be some lumpiness given the timing of contracts (the September and March quarters generally are the strongest).

In net profit terms, Ms Quirke expects the current (2021-'22) financial year will be break-even, moving to profitability next financial year. But that may change if contracts come through more strongly than expected.

Over the last year, Alcidion shares have prevaricated between 12 cents (October 27, 2020) and a record 42 cents (April 21 this year). Tuesday's quarterly (and implied full year) numbers were well received, with the stock perking up five cents, or 14 percent.

The shares bottomed at 4.0 cents in February 2019.

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

Alcidion doesn't delineate the revenue contributions from Australia and the UK, but by size alone the latter is obviously the company's key target market.

Ms Quirke says a pillar of Alcidion's strategy was - and remains - seeking acquisitions in the still-fragmented sector.

"We still have an active acquisition strategy in place, we will continue to look for those opportunities that might strengthen market share, capacity and capability," she says.

Alcidion evidently needs to be nimble and not skimp on research and development, or it eventually will become the next Kodak or Nokia with the health information equivalent of a museum-worthy film camera or flip-phone.

“We feel we have a head start because we fully re-engineered the platform in 2017,” Ms Quirke says.

A year ago, your columnist opined Alcidion’s vital signs looked robust, given its revenue and the absence of blood (cash flow) spurting from the proverbial operating table.

We maintain that view, although a \$420 million market cap as opposed to \$158 million a year ago leaves less scope for management to bury any mistakes - such as overpaying for acquisitions in a bout of hubris.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. But as with the medicos he has buried a few mistakes over time and prefers to let them rest in pieces.***

*The author, and Biotech Daily editor David Langsam, both own Alcidion shares.*