



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Medical Developments International

By TIM BOREHAM

**ASX Code:** MVP

**Market cap:** \$273 million; **Share price:** \$4.62; **Shares on issue:** 58.98 million

**Chief executive officer:** John Sharman

**Board:** David Williams (chairman), Max Johnston, Allan McCallum, Dr Harry Oxler, Leon Hoare, Philip Powell

**Financials (December half 2016):** revenue \$8.05 million (up 34%), net profit \$410,000 (up 74%), Ebit \$540,000 (up 70%), earnings per share 0.71 cents (up 73%), interim dividend 2 cents per share (steady), cash \$5.5 million (down 42%)

**Major shareholders:** David Williams 30.3%, HSBC Custody Nominees 5.75%, JP Morgan Nominees 5.08%, RBC investor Services 3.2%, Dr Russell Kay Hancock 2.5%.

If there's ever a more stunning case of an Australian biotech commercialising an old technology, please write in on a parchment with an old-fashioned fountain pen.

More commonly known as the Green Whistle, Medical Developments' lead product Pentrox has been used in ambulances here since 1975, when Gough still ruled the land (ok, only just).

What's changed is that as medical authorities have become more averse to opioids given the addiction issues, there's more appetite for the fast acting non-narcotic analgesic that the Green Whistle is.

The story to date is that Medical Developments has penetrated the UK and Irish markets, where it has product approval and a distribution tie-up with the pharma giant Galen.

In March, Galen lodged a re-order which, while unquantified, was meaty enough for the company to be "buoyed by the size of the order and its timing".

The company also began selling in France and Belgium in February this year.

In April, the company then signed up JSC Lancet to distribute Pentrox in Russia. The deal involves a \$2.3 million milestone payment and Lancet bears the regulatory approval costs -- which is nyet bad at all.

Lancet estimates sales of two million units among a populace of 143 million. And don't the Ruskiies know pain ...

The company aims to sell Pentrox into 40 countries by 2019, including the similarly pain-ridden Iraq, Iran and Jordan.

But the next major step is to launch in the US, where the denizens are coping with a different pain (the one in the White House\*). Further trials are likely to be needed to affirm Pentrox's street cred.

Apart from geographic expansion, there's also wider scope for the use of Pentrox in minor surgical procedures, military use, the home first-aid kit and developing world aid programs.

The company recently chirped that Galen achieved record sales in the UK in January, with 38 hospitals ordering or using Pentrox. A number of ambulance trusts are also appraising Pentrox, but it's interesting that more demand is coming from the centres of healing rather than what our American friends would term the 'first responders'.

While Pentrox is non-addictive and fast active, ambulance sources tell us it has one bizarre side effect: a temporary boost to the libido of female (but not male) patients.

One can only ponder the potential for off-label use as a female version of Viagra in which case the company should be worth \$275 billion and not \$275 million.

### **Asthma pumps up the story**

So as not to be accused of being a one trick pony, Medical Developments has also rolled out a number of asthma pumps to improve the delivery of asthma and chronic obstructive pulmonary disease medications.

The core product, Space Chamber, recently won US FDA approval.

What's more, US retailers Walmart, Kmart and Costco have agreed to stock the product in their drugstores, as well as the chemist chains Independent Pharmacy Group and Price Chopper.

Collectively these deals provide reach to more than 8,000 outlets, bearing in mind that chemist ownership rules are more liberal over there.

### **Hockey stick growth**

Medical Developments recorded half-year revenue of \$8.05 million, up 34 percent with earnings rising 74 percent to \$410,000. The company has been profitable every year since listing in 2003, when John Howard ruled the land (and Peter Costello wished he could have a turn).

Pentrox delivered sales of \$4.03 million, up 24 percent on the year while the asthma devices contributed \$2.84 million (up 103%). The company earned \$886,000 in milestone and licence payments as well as \$294,000 in veterinary anaesthesia and spacers.

But for the time being at least, Pentrox delivers most of the profits: earnings before interest taxation depreciation and amortization (Ebitda) of \$2.237 million, compared with \$54,000 for the devices.

Despite the overseas push, 66 percent of revenue still derives from Australia but this was down from 75 percent a year ago.

While management doesn't regard the asthma devices as second string products, Pentrox will drive short-term financial performance.

Bell Potter estimates the devices will chip in \$1.3 million of the company's forecast Ebitda of \$5.2 million in 2016-'17, increasing to \$2.9 million of \$7.7 million in 2017-'18.

The company received \$18.5 million in milestones and up-fronts from its various partners over the last 15 months and expects a further \$7 million over the next 18 months.

The banks must hate Medical Developments, because it has cash of around \$5 million and negligible debt.

### **Dr Boreham's prognosis:**

The stock has run hard, up from the \$2 level of two years ago and peaking at \$6.85 last May.

The current valuation puts the company on an earnings multiple of well over 100 times.

Unusually, the company paid a 4 cents a share dividend in 2015-'16 and should do again this year after paying out 2 cents a share as an interim dividend.

Bell Potter estimates peak net sales of \$248 million in Europe (excluding Russia), assuming 30 percent penetration.

The brokers forecasts peak sales of \$332 million in the US, also with 30 percent market share but ascribes only a 50 percent chance of success.

“Progress of development on Pentrox towards launch in the US may lead to an upside in our valuation,” says Bell Potter.

We reckon the company needs a successful US launch to justify its valuation, while asthma spacer sales also need to leave investors gasping with delight.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort.***

***\*Political comment contained within is spoken and authorised by a no-liability company created for negative gearing purposes.***