



# Biotech Daily

Friday September 15, 2017

*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Rhinomed

By **TIM BOREHAM**

ASX Code: RNO

**Market cap:** \$16.85 million; **Share price:** 18 cents; **Shares on issue:** 93,637,159 \*

**Chief executive officer:** Michael Johnson

**Board:** Ron Dewhurst (chairman), Michael Johnson, Brent Scrimshaw, Dr Eric Knight

**Financials (year to June 30, 2017):** revenue \$1.7 million (up 70 percent), loss of \$4.4 million (down 26 percent), cash burn \$3.0 million (down 51 percent), cash \$1.7 million, expected current quarter cash burn \$1.4 million.

**Major holders:** W Whitney George 17.7 percent, Kroy Wen (Ron Dewhurst) 7.5 percent.

\* post one-for-10 share consolidation

To lay folk, Rhinomed's devices are simply lumps of moulded plastic shoved up one's nose.

In fact, there's an underlay of high falutin' scientific theory: the company employs Poiseuille's law, a rule of physics that determines flow rates based on factors such as viscosity, temperature, pressure gradient, length and diameter of the tubing.

In the case of schnozzes, if the diameter of the nose increases by a factor of one, the volume of the airway increases by a power of four.

In practical terms: if a cyclist bungs on Rhinomed's plastic clip-like Turbine device to keep the nostrils open, he'll soon be winning the Tour de France without any fear of a random urine test.

In Rhinomed-speak the devices are "individually customisable dilators that enhance breathing and reduce nasal congestion without putting pressure on the septum".

### **Detractors can stick it up their nose**

Your columnist admits to being sceptical of Rhinomed, the former Consegna Group (and previously Helicon Group) that morphed into its current guise in 2013.

The work of Frenchman Jean Léonard Marie Poiseuille aside - and there's a 19th century physicist who needed to get out a bit more - Rhinomed's intellectual property seems unsophisticated.

But in simplicity often lies beauty: Somnomed, for instance, has built a \$50 million a year global market for its sleep apnoea devices that look like glorified mouth guards.

The Turbines also work for four times Tour de France winner Chris Froome, who has endorsed them from day one. While the pedal-pusher is a paid ambassador these days, the first time chief executive officer Michael Johnson knew of Froome's initial unsolicited endorsement was on Twitter.

Mr Johnson says the Turbines were more about "socialising" people to the idea of wearing an appendage on their snout.

He says one in four people have trouble breathing through their nose.

"Snoring is a symptom of nasal obstruction so we thought we would start with that opportunity rather than creating a technology and then finding an application," Mr Johnson says.

### **The story so far**

The Turbines were launched in 2014, paving the path led by Glaxosmithkline's successful Breathe Right strips that adhere to the nose and also force the nostrils open.

The Mutes - a variant for sleep disorders such as obstructive sleep apnoea (OSA, or snoring) - were launched online in December 2014 and in the Australian physical market in March 2015.

The Mutes and the Turbines are pretty similar, but the Turbines are made of more robust material with "retention features" so they won't fall off while you're cycling, jogging or even farnarkling.

As with the Turbine, Mute is sold over the counter for a recommended \$US24.95 (\$A31.20) for a pack of three although they tend to sell for \$US20 to \$US24.

They can be re-used up to 10 times - snot for too long.

Last financial year Rhinomed notched up \$1.7 million in revenue with 150,000 units (80 percent Mutes) sold in Australia, the US, Canada and the UK. Across the four geographies the two devices are sold in 7,000 retail outlets - mainly pharmacies - with a pipeline of 20,000 more.

And since June 30, Walgreens has expanded its stocking of Mutes from 891 shops to 4,389.

US distributor Hamacher Resource has also included Mutes on its 'planogram', a recommended store layout that reaches 10,000 US pharmacies.

Rhinomed distributes directly and also through Amerisource Bergen, McKesson, Vittoria Industries, Linde Group and our own Sigma Healthcare and Symbion.

The Mutes have regulatory approval in each of the four markets and the company recently won assent to sell in Taiwan.

## **A good night's sleep**

Rhinomed's greater fortunes lie in the \$US7 billion sleep disorders market. Specifically, the company is targeting the 70 percent of patients with mild to moderate obstructive sleep apnoea, with Mute used as a potential adjunct to oral (mouth guard-style) or continuous positive airways pressure (CPAP) devices.

The latter (sleep masks and air pumps) have a notoriously low level of compliance, partly because users look like Hannibal Lecter and they are expensive.

Rhinomed is undergoing phase II trials of a Mute variant, called an intra-nasal positive expiratory air pressure device (IPEAPD).

The IPEAPDs are Mutes that contain a valve, so that users can breathe in, but not out. When exhaling through the mouth, pressured airflow is created in a similar way to a CPAP device.

While the Mutes would remain over the counter it is expected the advanced snore-busting tool will be a prescription-only product, selling at a higher price.

And there's nothing like the gravitas of a white-coat doc pulling out his prescription pad and adorning it with scrawl translatable only by the apothecaries.

Rhinomed is also undergoing pre-clinical studies for over-the-counter variants for congestion, hay fever and anxiety.

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

Rhinomed has stuck to its two-product strategy and has established a broad distribution footprint. This should help the company to keep its nose in front of any rivals and spur meaningful revenue.

Mr Johnson is loath to commit corporate hara-kiri by citing a revenue target. But as a handy guide, the \$1.7 million revenue in 2016-'17 was from a base of 2,600 shops (with about 25 percent sold online).

Rhinomed pockets an average per-pack wholesale margin of \$US9 to \$US10.

By the end of the year the company hopes the devices will be based in 10,000 to 13,000 outlets.

"Based on that, we would like to see revenue increase in parallel to the store count," Mr Johnson says.

We concur that the greater potential lies in the expansive sleep disorders market.

Having hit a peak of 62 cents in late 2013, Rhinomed shares have been on downward peak ever since, trading in a range of 14 cents to 27 cents in the last 12 months. These prices have been adjusted for the company's share consolidation that reduced shares on issue by nine-tenths.

Two notable investors reckon the only thing on the nose about Rhinomed is the device itself.

US investor W Whitney George has built a 17 percent stake while chairman Ron Dewhurst accounts for about seven percent through his innovatively named, reverse cryptic crossword clue, Kroy Wen.

George is a head honcho at the New York-based fundie Sprout Asset Management. Having tried the device he had a Victor Kiam moment and bought the sizeable stake in his own right.

On our proboscis - er, prognosis - Rhinomed shares are set for a breath-taking run if the sleep apnoea potential can be achieved.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He also nose nothing about nasal airflow dynamics.***