



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Cryosite

By TIM BOREHAM

ASX code: CTE

Share price: 6.4 cents

Market cap: \$3.0 million

Shares on issue: 46,859,563

Chief executive officer: Mark Byrne

Board: Bryan Dulhunty (chairman), Andrew Kroger, Nicola Swift

Financials (year to June 30 2018): revenue \$5.92 million (up 0.67%), loss of \$1.24 million (\$225,000 profit previously), underlying profit \$259,441 (\$89,986 loss previously), and cash of \$4.68 million (down 8%)

Identifiable major holders: Andrew Kroger (and related entities) 36.95%, Cell Care Australia 19.7%, Alistair David Strong 4.27%, Jane Susan Milliken 2.78%, Tootcan Superannuation Services 2.15%, Stephen Roberts 2.07%.

The country's first private repository for blood stem cell material sourced from umbilical cords, Cryosite can lay claim to one weird fact and one less welcome 'first'.

The weird is that the company has revenue and is trading significantly below cash-backing.

The unwelcome first is that Cryosite is the first Australian company to face an action by the Australian Competition and Consumer Commission for allegedly 'jumping the gun' and engaging in cartel behavior before its proposed merger with a rival could be approved.

More on that later.

Collected at birth, the stem cells in cord blood and tissues can be used to treat certain blood disorders - and also could come in handy for any number of emerging stem-cell treatments being cooked up in Mesoblast's labs.

But cord blood banking has become a difficult business, with a rival called Stemlife going into administration in March 2016.

Cryosite nobly stepped into the breach and offered to be the freezer service for Stemlife's 2,000 plus punters.

Citing declining profits and lack of demand, Cryosite in August last year said it would close its cord blood banking facility for new customers and only store samples for existing ones under long-term or annual contracts.

"We were spending more money building and investing in the business but the number of contracts were declining," says Cryosite CEO Mark Byrne.

It doesn't help that there's a free alternative: birthing mothers at nine participating hospitals (of which five are public) are able to donate their bub's cord blood to Auscord, which keeps the material for other compatible uses.

Cryosite is now largely focused on storing (freezing) and transporting biological material for other uses, such as in clinical trials and university research activities.

Cryosite is 37 percent owned by former stockbroker and Cryosite board member Andrew Kroger, whose older brother Michael is better known as a Victorian Liberal Party heavyweight.

Cryosite unthawed

The country's only repository of cord blood stem cells at the time, Cryosite was founded in 1999 and listed in May 2002 after raising \$8.5 million at 40 cents apiece (for a total market cap of \$7.6 million).

(Those with an elephantine memory may recall Peter Walker's Private Blood Bank of Australia, which listed in 1987 as a repository for normal blood amid paranoia about AIDS and HIV. Being a 1980s company it eventually collapsed).

Specifically, Cryosite held itself out as the only collector, processor and storer of cord blood stem cells with the requisite Therapeutic Goods Administration seal of approval.

But more broadly Cryosite is about the ultra-low temperature storage of other biological material including cells, microorganisms, proteins and genes.

With the cord blood bank side of the business frozen, Cryosite's main activity is handling material for offshore pharma companies or contract research organizations seeking to do trials in Australia.

While big pharma companies routinely doing multiple trials are likely to have their own facilities, the business is profitable.

Cryosite has two key rivals: Pharma Packaging Professionals in Melbourne and Adelaide's Flinders Clinical Trials.

Management merry go round

Cryosite is one of those companies that changes its management almost as regularly as (most) people change their underwear.

Joseph Saad was appointed CEO in late January 2015, replacing 12-year managing director Gordon Milliken, but in October resigned for personal reasons.

Andrew Shine was then appointed in June 2016, but quit in May last year to be replaced by chief finance officer Mark Byrne on an interim basis. Mr Byrne was anointed permanent head honcho in January this year.

Executive director Graeme Morris was interim CEO on two occasions, but left in October 2016.

In March this year chairman Stephen Roberts resigned after a two-and-a-bit year reign, to be replaced by company secretary Bryan Dulhunty.

Jumping the gun?

In June 2017 Cryosite said it would licence (in effect sell) the cord blood bank business to its only rival, Cell Care Australia Pty Ltd.

Well, that one got a bit messy.

The Australian Competition and Consumer Commission reviewed the transaction, but then discontinued its public review process without giving a yea or a nay.

Given Cryosite and Cell Care are the only cord blood bank providers, ACCC approval was a condition of the transaction and given Cell Care was unwilling to waive it, the deal foundered.

At the time ACCC commissioner Rod Sims expressed his displeasure at the failure of the parties to seek dialogue with the regulator beforehand, even though the companies were not legally obliged to do so.

In its first “gun jumping” action, the ACCC in July this year launched Federal Court legal action against Cryosite for alleged cartel conduct.

The regulator contends that Cryosite acted illegally by referring all customer enquiries to Cell Care after the agreement was signed, but before the acquisition was completed.

The ACCC alleges this !!! ese amounts to cartel conduct because it restricted or limited Cryosite’s supply of cord blood and tissue banking services and allocated potential customers from Cryosite to Cell Care.

Cryosite pulled the plug on new collections in August last year, citing declining demand and diminishing profits.

At least Cryosite, which is still considering its stance on the ACCC proceedings, pocketed the \$500,000 upfront payment from Cell Care.

Financials and performance

Cryosite racked up what chairman Bryan Dulhunty dubs a “disappointing” loss of \$1.24 million in the year to June 30, 2018 (the deficit compared to a \$225,000 profit previously).

The half a cent dividend paid in 2016-’17 now looks a distant memory.

The closure of the company’s South Granville lab in Sydney (the processing business for new blood samples) resulted in \$995,743 of costs and write downs.

The bottom line number was further blemished by a \$169,416 legal settlement pertaining to a former director and employee who argued for extra payments.

Of Cryosite’s 2017-’18 revenue of \$5.92 million, \$5.3 million was derived from the trials and biorepository side and only \$553,313 from the long term cord blood contracts.

Because of the ACCC action, the company expects to incur “significant legal costs and the potential to incur financial penalties in the 2018-’19 financial year.”

Cryosite was also affected by a large customer who moved warehousing logistics management of a commercial product to an international distribution business.

As a result, the company expects a “significant negative impact on revenue and profits” in the first half, but hopes to have made up lost sales by June 30, 2019.

Cryosite’s troubles have weighed on the share price, which has steadily declined from 18 cents a year ago.

Dr Boreham's diagnosis:

To paraphrase Julia Gillard, Cryosite looks like a company that had lost its way. But at least it still has decent top-line revenue to work with ... and is "moving forward".

The company says there remains "significant opportunities" from long-term cold, frozen and cryogenic storage logistics and distribution.

"It's a modest growth business, maybe five to 10 percent a year," Mr Byrne says. "But that can change very quickly. The amount of investment going into the biotech industry is huge and we've seen a lot of activity in this space."

Should there be a surge of storage requests, the South Granville facility has adequate spare capacity to cope.

With the ACCC action weighing on the company, we expect Cryosite's prospects could remain in deep freeze for some time. But with a \$3 million market cap, the company is not exactly burdened with the weight of investor expectations.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Late one night he went looking for a cord blood bank ATM, but his blood ran cold when he ended up in a bar with Bram Stoker and Mary Shelley.