



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Universal Biosensors

By **TIM BOREHAM**

ASX code: UBI (Chess Depositary Instruments)

Share price: 20 cents

Market cap: \$46.2 million

Shares on issue: 231,400,768 (298,067,435 after completion of the \$12.5m capital raise)

Financials (calendar 2023): revenue \$6.63 million (up 47%), reported net loss after tax \$6.74 million (previous loss of \$26.85 million), cash of \$10.24 million (down 61%)

Chief executive: John Sharman

Board: Graham McLean (chair), Craig Coleman, David Hoey, Judith Smith

Identifiable major shareholders: Viburnum Funds (Craig Coleman) 24.8%, Richmond Hill Capital 10.65%, Jencay Capital 8.4%, Hancock & Gore 7.2%

When your columnist caught up with Universal Biosensors chief John Sharman early last Tuesday, he was exasperated about investor indifference towards the company.

Indeed. In the spirit of Easter, one could say the stock indeed had been crucified.

"It's a frustrating time but our key message is our sales are growing and we are investing heavily in sales infrastructure," Mr Sharman said. "Revenue is up, costs are down, the balance sheet is strong and we have world class opportunities, both in terms of rolling out the products and new opportunities."

A couple of hours later, Mr Sharman was much perkier after the US Food and Drug Administration (FDA) said it had approved its coagulation blood-testing tool, Xprecia Prime as a class-two device.

UBI shares shot up 50 percent - an impressive resurrection.

Xprecia Prime is the second-generation iteration of UBI's foundation blood glucose and coagulation testing platform, originally developed for Johnson & Johnson's Lifescan and Siemens Healthcare, respectively.

Mr Sharman dubs the FDA assent as an "historic moment", representing "more than 10 years of research and development work and many millions of dollars in investment."

Now, the company is applying its electro-mechanical testing platform to other pursuits including winery quality control (Sentia), diabetes monitoring for dogs and cats and water testing.

Currently the company has 11 revenue-generating products, which in December produced monthly revenue of \$1 million for the first time.

The evolution of UBI

Similar to the cartridge-and-printer model, UBI derived annuity revenue from its hand-held devices (the 'printers') and the single-use disposable strips (the 'cartridges').

The products are based on its proprietary electro-chemical sensing system, devised by a team led by CSIRO electro-chemist Dr Alistair Hodges.

UBI listed in December 2006 after raising \$22 million at 50 cents apiece.

For reasons lost in the mists of time, the company is incorporated in Joe Biden's home state of Delaware but is not listed in the US.

Mr Sharman was CEO of Medical Developments for 10 years, having previously run the nuclear imaging company Cyclopharm.

When he started, UBI derived most of its (modest) revenue from providing its Xprecia Stride blood coagulation monitoring strips to Siemens (for users of blood-thinning drugs, like warfarin).

Siemens launched Xprecia Stride in 2015, but UBI bought back the rights in 2019.

In September 2018, US diagnostics giant Johnson & Johnson's Lifescan exercised its option to buy the rights to Universal's Xprecia Prime blood-glucose monitoring platform for \$44.6 million - a disappointing deal that trashed the share price - despite being clearly flagged in the original prospectus.

Xprecia Prime, was approved in Europe in February last year.

A CLIA advantage for Xprecia

The FDA approval for Xprecia Prime was accompanied by a Clinical Laboratory Improvement Amendment (CLIA) waiver, which is more momentous than its sounds.

As Mr Sharman explains, the waiver means the tests can be used by laboratories that are not necessarily medical facilities and administered by non-doctors (nurses).

The majority of US tests are done at such labs. "Because [coagulation] is more life-threatening than glucose, the FDA is very reluctant to allow [testing] outside of the hospitals," he says. "So, the agency did not take the decision lightly."

Technically, the tests are prothrombotic time (PT) and international normalised ratio (INR) assays.

In short, PT/INR tests check the dosage of vitamin K antagonists (such as warfarin). Too much efficacy means there's a risk of dangerous bleeding; too little means there's a risk of thrombosis.

At the end of 2023, 6,072 Xprecia devices had been sold in 36 countries, a year-on-year increase of 60 percent. Test strip sales grew 130 percent.

No need to wine about testing

Until now, busy vignerons have had to test their fermenting brews in separate procedures involving beakers and lots of fuss.

The Sentia device enables instant hand-held testing of free sulphur dioxide, malic acid, glucose, fructose, acetic acid and titratable acidity.

The company hopes to fill the obvious missing element - alcohol level testing.

The Sentia devices sell for just over \$2,000, with a per-strip cost of \$3.50 - a fraction of the cost of the current tests.

With more 100 million tests carried out each year, the wine market turns over \$US850 million (\$A1.1 billion) annually.

Mr Sharman says 20 percent of Australian wineries have bought a Sentia device, as have seven percent of New Zealand and US wineries.

Elsewhere the take-up has been minimal, notably in Europe where only about 300 of the region's 100,000 wineries have come on board.

"We see [adoption by wineries in Australia] getting close to 40 percent and we see no reason why the US and the rest of the world won't get to those numbers in due course," Mr Sharman says.

The truth about cats and dogs

The company expects its Petrackr (sic) glucose testing device to be a howling success because these days owners will spend anything - or almost anything - to keep their treasured fluffballs healthy.

At the same time, canine and feline obesity and diabetes levels are proliferating.

Currently, UBI sells Petrackr in the US, Canada, the UK, New Zealand and here.

The company cites a \$300 million-a-year market, growing at 12 percent a year.

However, sales have been slower than expected since the product hit distributors' shelves in the September quarter last year.

"We thought we would do a couple of million of sales in the second [December] half, but we did just north of \$500,000," Mr Sharman says.

The key reason is that pet owners have about a year's supply of 50-70 strips for the incumbent product, sold by Zoetis.

UBI's opportunity arises because Zoetis is discontinuing its current product and is forcing customers to upgrade.

"We expect a large proportion of that market to move to Petrackr," Mr Sharman says.

Why?

"Our device is easily the best and significantly cheaper."

Need we have asked?

Oncology not forgotten

UBI has been developing an early warning test for the TN antigen which is expressed in at least 10 carcinomas including breast, lung, prostate, bladder and colorectal.

Apart from early diagnosis, the simple test could help physicians to test cancer progression from stage one to stage three.

The trouble is, the test is only about 70 percent effective, when 90 percent efficacy is needed.

UBI would need to spend \$10 million to \$20 million over the next three to five years to perfect a test – a time span the market is not willing to support.

Still, a reliable hand-held blood-based assay for a disease such as prostate cancer would be the Holy Grail of diagnosis.

Water good idea

With apologies to Danny Boy, the pipes, the pipes are calling for UBI by way of detecting heavy metal impurities in water.

UBI's initial focus is on copper and lead, while arsenic and cadmium are also problematic.

The company says about 180 million tests worth \$US5.4 billion are done each year, with about 100 million properties in Western countries serviced by lead water pipes.

Mr Sharman says these pipes are removed routinely when sites are redeveloped.

That's fine, in theory: damaged, leaching lead pipes are dangerous. But many of these conduits are working fine and will do so for decades more.

"The quicker the [housing] development, the more the pipes are cut and the faster the contamination," Mr Sharman says.

UBI's device would enable house-to-house testing from the tap, enabling an accurate profile of where the problems lie.

The company estimates one sample would cost around \$5, compared with \$60 for the current tests.

Mr Sharman says water test is a low-cost, near-term opportunity that could help the company progress to break-even.

Finances and performance

UBI pre-empted the March 19 FDA news by announcing a \$2.5 million institutional placement and a \$10 million non-renounceable rights issue. The raising, which requires shareholder assent, is struck at the then market rate of 15 cents.

The rights offer is underwritten by major shareholder Viburnum, which is represented on the UBI board by Craig Coleman.

The offer also included a one-for-one option, exercisable at 20 cents within three years.

In late February, UBI reported revenue of \$6.63 million for the calendar 2023 year, 47 percent higher and narrowed its net loss to \$6.74 million from \$26.85 million previously.

Product sales increased 66 percent to \$5.64 million, while services revenue declined 14 percent to \$990,000. The former is attributable to largely to Xprecia and Sentia sales and the latter to the company's legacy laboratory testing arm, HRL.

Over the last year, UBI shares have ranged between 31 cents (mid-August last year) and 14 cents (mid-March this year). They peaked at around \$2 in January 2010.

Wielding the scythe

Management has excised at least \$4 million from the company's cost base – items such as rent and power – and invested it in sales and marketing.

“Two years ago, we had one sales and marketing person; today we have 18,” Mr Sharman says.

Given the testing platform is mature, the company needs to spend little on ongoing research and development. UBI's key challenge is to improve utilisation of its production facility, at rented premises at Rowville in eastern Melbourne.

While the factory spat out about two million strips last year, it can manage up to 70 million on a single shift, with no extra investment required.

Dr Boreham's diagnosis:

Mr Sharman likens the company to Roadshow Antiques, the multi-country TV franchise which appraises folks' trinkets in the hope of finding long-lost treasures.

“If everyone dusted off what Universal Biosensors had - especially around its technology - they would go 'wow',” he says.

Given its slew of opportunities, UBI indeed has the potential to become the next Ming dynasty vase of the sector, rather than a mass-produced ceramic pot.

Within 14 to 18 months, sales from UBI's new and expanded products should flow in earnest - and it would not be a stretch for the company to double its revenue in 2024.

While investors have required oodles of patience, Mr Sharman promises that “greatness” is around the corner.

“Patience and persistence are not the same thing,” he says. “You can patiently wait for things that are never going to come, but persistence requires you to put effort in to stay on the right path.”

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He is yet to discover a Ming dynasty vase among the chipped and crazed op-shop Carlton Ware but will never relinquish the hunt