



Biotech Daily

Friday July 19, 2024

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Compumedics

By **TIM BOREHAM**

ASX code: CMP

Share price: 32 cents; **Shares on issue:** 183,770,091; **Market cap:** \$58.8 million

Executive chair: Prof David Burton

Board: Prof Burton, David Lawson, Rod North

Financials (December half 2023): revenue of \$26.4 million (up 38%), earnings before interest tax depreciation and amortization \$2.16 million (\$4.76 million loss previously), net profit \$141,000 (\$7.21 million loss previously), cash of \$3.67 million (down 3.3%), net debt \$3.87 million (up 62%). The company has disclosed unaudited revenue of \$49 million for the year to June 2024, up 16 percent and guided to full-year profitability.

Identifiable major shareholders: D and DJ Burton Holdings (Prof Burton) 53.35%, B&R James Investments 4.03%, Beijing Bestmed Tech 2.67%, Medigas Italia 2.36% (Italian distributor).

Compumedics founder, executive chair and majority shareholder Prof David Burton admits that the company has been too complex for investors to understand and that its market valuation has lagged as a result.

As a rough guide, this week, the company flagged record full-year revenue of \$49 million and a small profit, but its market worth is a mere \$55 million.

For almost four decades, the Melbourne-based Compumedics has perfected diagnostic equipment for interpreting brain and sleep functions.

It's been a slow-burn story, but Prof Burton is undertaking an external review that - in part - will determine whether Compumedics sum-of-the-parts of its four key divisions is worth more than the whole.

The process is in its early stages.

"We have been around for a long time and the value hasn't been realized, so we need some independent strategic critique," he says.

Prof Burton cites the experience of the ASX-listed Vision Systems which initiated a similar review.

History shows that Danaher Corp of the US acquired the company for \$700 million in a spirited three-way takeover tussle.

"The market was shocked at the multiples generated just in that process," he says.

Prof Burton says the time for a review is ripe because Compumedics has reached numerous "inflexion points" across its four key business.

These include the rollout of the home-based subscription sleep diagnosis tool Somfit, which has won leading share of the pharmacy market here and has been selling well in the US since its recent launch there.

A bit of history

With a background in sound recording, Dr Burton was inspired to found Compumedics after visiting a doctor for a sore throat.

Que?!

Apart from prescribing antibiotics, the physician asked him if it was possible to invent a sleep monitoring device.

Dr Burton obeyed doctor's orders and founded Compumedics in 1987 - at the tail end of the entrepreneurial era and just before the share market crash.

In the same year, the company designed and installed the first fully-computerized Australian sleep clinic, at Melbourne's Epworth Hospital.

Compumedics listed on the ASX in December 20, 2000, having raised \$15 million at 30 cents apiece.

Compumedics claims to be the number one provider of sleep and neurological diagnostics locally and in Japan - and who are we to argue?

The company operates via its US-based Neuroscan arm and the German-based DWL Elektronische GmbH.

Product suite

Compumedics' core products range across sleep diagnosis, clinical electro-encephalogram (EEG) scans, brain monitoring and ultrasonic blood-flow systems.

Established products include Grael and Siesta for sleep, Neuron for neurology and Synamps RT and Curry for brain research.

The aforementioned DWL Elektronische delivered the company's Doppler transcranial scan capacity (ultrasounds to detect vascular systems within the brain).

The company's flagship product is the Orion Lifespan Curry MEG (magneto-encephalography) a patented double relaxation oscillator super-conducting quantum interference device.

Yep - your read that one correctly.

In the last six months the company has launched new products for the home sleep testing market: Somfit and a variant called Falcon.

Following US Food and Drug Administration approval of Somfit on December 4, 2023, the company started sales in the US with first revenue invoiced in the June quarter. In June this year the company appointed a US based head of sales for home sleep testing and the company plans to hire six dedicated US sales staff.

One of Compumedics' most important recent products is the magneto-encephalography MEG device that's the neurological equivalent of the now common magnetic resonance imaging (MRI) devices.

Compumedics licenced the MEG hardware from the (South) Korean Research Institute of Standards and Science (KRISS), that country's equivalent of the CSIRO.

In 2017, the company won the first contract with Arizona's Barrow Neurological Institute, home to the Muhammed Ali Parkinson Centre.

'Hairdryers' for kids

To date, the company has sold two MEGs - to China's Tsinghua and Tianjin Universities for around \$14 million.

The company reports two additional MEG sales in China worth \$9.2 million and due for delivery in 2025.

In February 2021, the company won FDA assent for a so called dual-helmet "dewar" Orion Lifespan MEG, a version that's been designed for both children and adults.

The problem with the full dewars - the "Marj Simpson hairdryers" - is that the strength of the signal is reduced because the smaller head of a child creates a bigger gap between sensors.

An added advantage is that the Orion MEGs use virtually no helium, which prevents downtime created by the noisy phase when the gas is recycled.

In March 2023, the company won FDA approval for Okti, “the world’s first high-density ambulatory EEG amplifier”, under the 510k route.

Okti pertains to epilepsy and general neurological monitoring.

The company cites a \$US400 million market for Okti, growing at a compound annual rate of 9.0 percent. The company targets a one to two percent share of this market “in the mid-term”.

Not a sleeper

Consisting of a single-use disposable sensor and reusable monitor, Somfit has captured about 75 percent of the local pharmacy-based home sleep apnoea testing market.

This is courtesy of its relationship with Philips Pharmacy Sleep Services, which has a tie-up with the Amcal chemist chain.

Following FDA approval of Somfit in December last year, the company started selling in the land of the free and snoozy.

“This relatively new and growing consumer-accessible sleep health monitoring sector will underpin future growth in similar or adjacent areas,” Prof Burton says.

Somfit captures eight physiological data points, compared with 32 for a full diagnosis at an overnight sleep clinic. Released in late 2023, a variant called Falcon has 12 data points and in chief financial officer David Lawson’s words is “going gangbusters”.

Compumedics also has a professional version, Nexus 360, used by clinics.

“Somfit is important because the health software-as-a-service businesses are attracting valuations of multiples of annual sales,” Prof Burton says.

In the US, Compumedics sniffs an opportunity with the retreat of Philips arm Respironics from the sleep lab market, following well-reported product recalls.

Phillips had a 40 percent share of this market and Compumedics estimates a replacement value of \$US55 million to \$US70 million.

Prof Burton is buoyed by the experience of key rival Itamar Medical, which was taken over for by Zoll Medical Corporation for \$US538 million three years ago.

“Over time we think we can carve out \$6 million to \$7 million of software-as-a-service revenues in Australia, while in the US we are looking at \$US25 million to \$US30 million, if we execute correctly.”

... but this one is

In Compumedics' infancy in the 1980s, artificial intelligence referred to an enthralling man-versus-machine Pacman duel.

Now, the company is embracing the vogue technology by way of its German arm, DWL, which has devised a robotic artificial intelligence tool to check for brain trauma after an accident.

The prototype device – TCD - is the first to measure the “doppler transcranial characteristics” or blood through the brain.

Prof Burton says the current treatment involves transporting the patient to hospital for an MRI or other scan, within a window of about one hour. A hole in the skull may be required to alleviate blood pressure.

TCD consists of a motor-controlled robotic server that zeroes into the vessels with far more accuracy than an ultrasound probe held by an intern on their 60th hour of overtime and 60th coffee.

Finances and performance

In this week's trading update, management pre-announced record revenue of \$48 million for the year to June 2024, up 16 percent.

The sales order book surged 22 percent to \$52 million.

The company said it would “build on” first half underlying earnings (Ebitda) of \$2.2 million, but expected to fall shy of the previous guidance of about \$5 million.

This was due to continuing investment in the US business and the “positive resumption” of the company's DWL China's business taking longer than expected.

Somfit revenues rose twenty-fold to \$2.1 million, while total software-as-a-service revenues (Somfit and the laboratory management software Nexus 360) gained 140 percent, to \$4.2 million.

In the 2022-'23 year, Asia, Europe and the US each contributed about 25 percent of revenue, with Australia accounting for 10 to 15 percent.

“We are an exporter at heart,” Mr Lawson says. “The Australian market is not big enough for what we do, but we do have a revamped sales team in Melbourne carving out a big market.”

The company recently raised \$1.9 million in a placement at 28 cents apiece, pitched at supporting the US rollout of the home sleep testing product.

As at December's end Compumedics held cash of \$3.67 million, with net debt of \$3.87 million.

Over the last year, Compumedics shares have traded between 43 cents in mid-January this year and 16 cents in late October last year. The stock peaked at 85 cents in December 2019.

Dr Boreham's diagnosis:

When we last covered Compumedics in March 2021, Prof Burton compared the company with a slowly ageing wine that was yet to reach its peak.

Should we be popping the corks - or twisting the Stelvins screw cap - now?

While the company has issued more false upbeat signals than a drunken semaphore operator over the years, a step-change in its prospects appears imminent.

"The time has come to speed things up," Prof Burton says.

This could be by way of a demerger or asset sales - perhaps a 'Megsit' of the research-stage MEGs business.

Mind you, if the company achieved anything like the penetration of MRIs - 40,000 to 50,000 machines currently - it would be in more clover than a Gippsland cow.

But investors should be dreaming of sleep therapies - especially in the insomniac US market.

As Mr Lawson notes, there are 65 million to 80 million Americans with sleep problems and only 25,000 sleep beds "which is just not enough to make a dint into that number".

Prof Burton adds that more than half of people with depression, anxiety and bipolar disorders have sleep problems

"Sleep is a recovery period for the body and the brain," he says. "Functions such as generating insulin production rely on deep sleep, as does the restoration of the brain to flush out the toxins."

Compumedics holders can sleep - perchance to dream - of prosperous times ahead.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He's feeling very sleepy and is off to bed.