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Bioshares

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*Delivering independent investment research to investors on Australian
biotech, pharma and healthcare companies*

Extract from Bioshares –

Companies covered: CGS, LBT, OSL

LBT Innovations Update

LBT Innovations (LBT: \$0.11) raised \$7.9 million earlier this year (at \$0.15 per share) and has set itself a target of becoming cash flow positive in early 2020 from sales of its APAS Independence instrument and ongoing software licences.

The company is aiming to sell around five of the instruments this year through its joint venture Clever Culture Systems (CCS), with sale of the first instrument very close according to the company, although missing the June 30 target for the first sale.

The APAS Independence sells for around US\$300,000, with profits distributed equally with its JV partner Hettich AG in Germany. For LBT, the more significant income will come from annual software licenses to operate the instrument, with 75% of software fees going to LBT (around \$20,000 per instrument). For LBT to reach profitability, it is estimated the company will need to have around 200 systems installed globally.

CEO Brent Barnes said that 2018 was really about establishing a footprint for the year ahead. That footprint involves getting the initial sales, commercial validation of the product at major reference sites, building its 'modules' for its products, and gaining approval for the automated APAS instrument in the US (which is expected this year).

Clinical Evaluations

The first APAS system was installed last year at St Vincent's pathology centre in Melbourne with a second Australian group evaluating the product. St Vincent's assessed the instrument on around 3,000 urine samples, which is the only module for which the instrument has been validated at this point. The performance targets were met during this evaluation with additional plate processing benefits identified.

A major pathology group in Germany, Labor Dr Wisplinghoff (LDW), recently started evaluating the APAS product as well. LDW processes around 5,000 agar plates a day, and eventually could purchase four of the APAS products to process its daily agar plate specimens. Barnes currently sees LDW as more of a partner, allowing CCS (the JV) to assess the product's value in a high workflow laboratory, as well as validating the additional modules and validation of the instrument across different types of agar plates which can vary between manufacturers.

Additional Modules

Currently the APAS system has been validated for processing urine samples at pathology laboratories. The next module is for the detection of MRSA (golden staph). These two modules dominate pathology agar plate workflow, representing between 60% - 70% of samples. LBT expects the MRSA module to be validated by year's end.

LBT expects to invest around \$2 million a year on building and validating its modules, as well as validating the modules across agar plates from different manufacturers. This

Continued over

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.6%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (May '06 - May '07)	17.4%
Year 7 (May '07 - May '08)	-36%
Year 8 (May '08 - May '09)	-7.4%
Year 9 (May '09 - May '10)	50.2%
Year 10 (May '10 - May '11)	45.4%
Year 11 (May '11 - May '12)	-18.0%
Year 12 (May '12 - May '13)	3.1%
Year 13 (May '13 - May '14)	26.6%
Year 14 (May '14 - May '15)	23.0%
Year 15 (May '15 - May '16)	33.0%
Year 16 (May '16 - May '17)	16.8%
Year 17 (May '17 - May '18)	-7.1%
Year 18 (May '18 - current)	-5.9%
Cumulative Gain	652%
Av. Annual gain (17 yrs)	17.1%

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investment now should generate a sustained future income from software licenses. Whilst it requires an upfront investment by LBT, it will also serve as barrier to entry, or delay entry, by future competitors.

WoundVue Program Paused

LBT has paused development on its WoundVue program and may consider out-licensing this technology. The reason for the decision is to minimize its cash burn and to move to profitability from sales around the APAS Independence product. This is a sensible decision and will also allow management to direct all efforts towards the commercialisation of the company's main and most important product.

Distribution

LBT has been awarded distribution rights for the APAS product in Australia. The joint venture group is seeking to appoint regional distributors for the product rather than use the one global distributor, which was the path chosen for the company's first product (MicroStreak) that was licensed to bioMerieux. We expect distribution deals to be secured once additional product modules have been validated and more reference sites are operational.

Summary

Sales of the first product LBT commercialised, the MicroStreak for automated streaking of agar plates, reached between 450-500 units globally. CCS is targeting the 12,000 medium sized labs globally that process between 400 - 1,000 plate a day, and the 1,000 labs that process more than 1,000 plates daily. Its automated product is three times faster than manually reading of plates with a capability of processing 200 plates per hour.

The company has set itself an ambitious target of reaching profitability in under two years. It's a challenging target with many milestones to achieve in this time. The company is fully funded over this period and early product sales should be a share price driver. Key data to monitor, other than early product sales, will be the establishment of additional reference sites, the expansion of product modules, and usability data that emerges from the reference sites with respect to improved operational efficiencies that can be delivered.

The company had \$9.4 million in cash at the end of March including additional subsequent funds received from completion of its capital raising.

LBT is capitalised at \$22 million.

Bioshares recommendation: **Speculative Buy Class B**

Bioshares

How Bioshares Rates Stocks

For the purpose of valuation, Bioshares divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, Bioshares grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks. For both groups, the rating “Take Profits” means that investors may re-weight their holding by selling between 25%-75% of a stock.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

- Buy** CMP is 20% < Fair Value
- Accumulate** CMP is 10% < Fair Value
- Hold** Value = CMP
- Lighten** CMP is 10% > Fair Value
- Sell** CMP is 20% > Fair Value
(CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A

These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B

These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C

These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

Corporate Subscribers: Cogstate, Bionomics, LBT Innovations, Viralytics, Opthea, RHS, ResApp, Pharmaxis, Dimerix, Cyclopharm, Adalta, Medibio, Pharmaust

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