

Aroa Biosurgery

Upping the direct sales ante

Aroa Biosurgery (ASX:ARX) is a soft tissue regeneration company that develops, manufactures, sells and distributes medical and surgical products to improve healing in complex wounds and soft tissue reconstruction. The products are developed from the Company's proprietary Endoform® technology platform, a novel extracellular matrix biomaterial derived from sheep forestomach. The company has three commercial products in market (Endoform, Ovitex and Myriad) and a further two in the pipeline (Symphony and sNPWT). The Company was founded in 2008 and listed on the ASX in July 2020, raising \$45m at \$0.75/share, \$15m of which was early investor sell-down and the balance used for working capital, expansion of manufacturing capacity and offer costs. The direct sales team in the US is being significantly expanded over the next 18-months with ~13 sales reps and two medical science liaisons expected to be added, promising significant sales leverage. The group should have manufacturing capacity for NZ\$50m in sales revenue by the end of CY21 against a forecast sales base currently of ~NZ\$22m. Recent sales have been impacted by COVID (lower rates of elective surgery) but this looks to be subsiding and management remain confident of sales growth in 2H21 on the PCP (March year-end).

Business model

ARX generates revenue from the sale of its products via both a direct sales team and through TELA Bio Inc, predominantly in the US although the products are approved in 44 countries. The groups primary customers are hospitals, ambulatory surgery centres and outpatient wound centres. Group gross margins are ~70% and the company currently has a manufacturing capacity to generate \$35m in revenue, moving to \$50m by the end of CY21. Operating costs centre around selling & admin and research & development, which were 23% of sales in FY20. The company is accelerating its marketing efforts with the addition of three new field and two inside sales reps, together with two medical science liaisons in 2H21, and a further 10 sales reps in FY22 to focus on the sales of Myriad™.

Growth in Q3 cash receipts point to 2H21 revenue growth

ARX has a March year-end and reported their interim results late November 2020. Revenue was impacted by COVID related disruptions to elective surgery, down 10% over the period. Operating losses increased from NZ\$727k to NZ\$4.0m on the back of the revenue decline, higher selling expenses and the absence of royalties compared to the PCP (NZ\$2.9m). The company is expecting revenue growth in 2H21, and look on-track after reporting cash receipts of \$5.8m in the December quarter against \$4.1m in the September quarter.

Regenerative medicine the peers focus

We would look to "regenerative" medicine plays for peer comparisons. Domestically Next Science (ASX:NXS) is an obvious comparison, playing in the wound space with their antimicrobial gel that is applied to biofilms to remove key community acquired pathogens from many area they are used.

Historical earnings and ratios					
Year end	Revenue (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)
06/18a	8.4	(3.5)	(3.6)	nm	43.0
06/19a	18.8	(0.4)	(4.5)	nm	19.2
06//20a	21.9	(2.6)	(6.2)	nm	16.5

Source: Company data

Medical devices

12th March 2021

Share details

ASX Code	ARX
Share price	\$1.20
Market Capitalisation	\$361.2M
Shares on issue	301.0M
Net cash at 31/12/2020	36.8M
Free float	20%

Share performance (since listing)



Upside Case

- New products gain FDA approval
- Positive clinical trial data/publications
- Direct sales team grow market penetration

Downside Case

- Sales team investment does not cover revenue
- New technologies in the wound space
- Access to sheep forestomach

Catalysts/upcoming events

- Reimbursement coding for Symphony
- Full-year results (May 2021)

Comparable companies (Aust/NZ)

Next Science (ASX:NXS)

Top 5 shareholders

Brian Ward	11.0%
Morvac Fund 3	6.2%
Phillip McCaw.	5.6%
Richard Abbot	3.9%
Aspire NZ Seed Fd	3.4%

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FINANCIAL SERVICES GUIDE

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