

Atomo Diagnostics Ltd

One winner from COVID-19

Atomo Diagnostics (AT1:ASX) was established in 2010 and listed in April 2020 raising \$30m at \$0.20/share to repay all company debt, invest in manufacturing facilities and provide working capital for expansion, particularly in relation to the COVID-19 antibody tests. AT1 supplies devices for the rapid testing of blood by both professionals and consumers, to detect and test for infectious diseases and chronic health conditions. The devices are said to be simpler than traditional device kits, having less components and steps than competitors with improved accuracy. The device provides a finished rapid flow blood test to the end user in a single device. The products are distributed via third party distributors and used as an OEM product to manufacturers of complete diagnostics kits. Over FY20 COVID-19 tests represented 63% of sales (all in 2H20), HIV kits ~22% of sales and OEM ~15%. The AtomoRapid™ COVID-19 antibody test COVID-19 kit has just recently had approval from the Australian Therapeutics Goods Administration (TGA), opening up new markets outside of the existing partnership with NG Biotech SAS in France, who has ordered 1.75m kits alone to-date and an agreement more recently with Access Bio Inc (US) for the North American market that includes a 2m unit take or pay contract. FY20 revenues increased tenfold on FY19 (at \$5.4m) at a strong gross margin of 60% aided by the higher margin COVID-19 test kits.

Business model

AT1 generates revenue from selling its HIV products via distribution agreements with international health companies including Mylan (from July 2019) and Owen Mumford (from February 2019), and selling its Rapid Diagnostics Test (RDT) devices as an Origin Equipment Manufacturer (OEM) product to diagnostic kit manufacturers for inclusion in their test kits. More recently the company has pivoted the COVID-19 antibody test kits, swamping the sales of other products over 2H20. Manufacturing is currently outsourced and recently a purpose-built facility in South Africa has been built, certified by regulators and is now operational.

Recent company commentary

COVID-19 tests introduced in 2H20 drove a 10-fold increase in revenue over FY20 to \$5.4m, with the 1H/2H split \$0.9/\$4.5m, of which \$3.4m was COVID related. The EBITDA loss ex IPO costs narrowed over the period as a result. A distribution agreement with NG Biotech SAS out of France for the supply of devices to test for COVID-19 antibodies was signed during the second half and TGA approval was granted in August. Manufacturing was scaled-up from 250k/month to 750k/month over the second half with a target of 1m/month by December 2020.

GSS:ASX the most comparable listed peer

There are a number of medical device companies listed on the ASX but Genetic Signatures (ASX:GSS) will be most comparable. GSS has a core EasyScreen™ test kit used across a number of indications, and has just recently introduced a test for COVID-19 which has seen 2H20 sales increase. The company has similar levels of net cash, is loss making at the EBITDA line (but narrowing) and looking to scale existing technology. Relative to GSS, AT1 is trading at an EV/EBITDA premium on FY20 sales (35x against 26x).

Historical earnings and ratios

Year end	Revenue (A\$m)	Gross profit (A\$) (A\$m)	EBITDA Adj.* (A\$m)	NPAT Rep. (A\$m)	EPS Adj.*(c)	EPS Rep. (c)	EV/Sales (x)
06/19a	0.54	0.10	(4.10)	(5.10)	nm	0.19	350.0
06/20a	5.37	3.19	(2.38)	(9.20)	nm	0.59	35.2

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

Medical Devices

4 September 2020

Share details

ASX Code	AT1
Share price (3-Sep)	\$0.385
Market Capitalisation	\$216.0M
Shares on issue	561.1M
Net cash at 30/06/2020	\$27.1M
Free float	50.6%

Share performance (since listing)



Upside Case

- Improved GP margins via own manufacturing
- More COVID testing partnerships
- Test kits for new indications outside of COVID

Downside Case

- Sudden reduced demand for COVID testing
- Excess manufacturing capacity post build
- Potential competition from new technology

Catalysts/upcoming events

- Commercial COVID-19 kit sales
- Interim results FY21

Comparable companies (Aust/NZ)

Genetic Signatures (ASX:GSS)

Top 5 shareholders

Dalraida Holdings Pty Ltd	11.79%
Global Health Investment Fund I, LLC	11.38%
Walker Group Holdings Pty Ltd	8.32%
Perennial Value Management Ltd	7.44%
Ellerston Capital Ltd	6.13%

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FINANCIAL SERVICES GUIDE

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