

Atomo Diagnostics Ltd

COVID grows sales – what next?

Atomo Diagnostics (ASX:AT1) 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. AT1 has developed and commercialised a fully-integrated, rapid blood-test device that removes the need to use multiple accessories to conduct a rapid test. These easy-to-use rapid tests can be used by professionals and consumers, to screen for infectious diseases and chronic health conditions. The products can be distributed as either an OEM product to manufacturers of diagnostics kits or as a finished product. In FY21 COVID-19 tests (including rapid antibody and antigen tests) represented 55% of sales (all in H2 '20), HIV kits ~16% of sales and OEM ~29% with strong revenue growth continuing in Q1 and Q2 of FY22. Atomo's focus on improving usability in test kits is resonating with consumers who are faced with frequent testing requirements in non-clinical settings. Atomo's infectious diseases tests (HIV, COVID-19, etc) are sold through established channels around the world. South African production capacity for device sales to original equipment manufacturers (OEMs) has increased as planned and the first US FDA approval for a test using Atomo's platform was received in 2021. Following the rapid increase in demand for telehealth consultations, Atomo is also currently in the process of developing nasal- and saliva-based swab, rapid tests to meet market demand.

Business model

AT1 generates revenue from selling its rapid test finished products to healthcare distributors in Australia and overseas and also supplies its assembled test devices as OEM products to other international diagnostic companies that utilise Atomo's test devices in their own finished-product rapid tests. The company also sells products such as its HIV self-test and COVID-professional-use rapid antigen tests (RATs) directly to customers in Australia.

Recent company commentary

Atomo's Q2 FY22 report highlights strong revenue growth with YTD revenue of \$7.0m vs FY21 \$6.7m. The company retains cash funding for 32 quarters at current rates, and is seeing continued growth in markets for HIV self-tests, with the recent TGA softening on previous marketing constraints for direct retail sales in Australia adding further demand and opening the door to more self-test opportunities locally. Professional-use rapid COVID-19 antigen tests (RAT) sales increased in Australia with AT1 seeing strong product sales extending beyond H1 FY22 into Q3.

Positive momentum in a sector in focus

There are a number of medical device companies listed on the ASX but, in our view, Genetic Signatures (ASX:GSS) is most comparable. GSS has a core EasyScreen test kit used across several indications and introduced a test for COVID-19 which has seen sales increase strongly in the past 18 months. GSS is currently trading on FY21 sales of 4.7x versus AT1 on an EV/Revenue multiple of 7.7x FY21. Universal Biosensors (ASX:UBI) and Lumos Diagnostics (ASX:LXD) are also engaged in manufacture of diagnostic and medical testing devices with EV/Sales of 26.8x and 0.5x respectively.

Historical earnings and ratios (In A\$m unless otherwise stated)

Year end	Revenue	EBITDA Adj.*	NPAT Adj.	NPAT Rep.	EPS Adj. (c)	EPS Rep. (c)	EV/Revenue^ (x)
06/18a	0.29	(5.78)	(5.02)	(4.90)	(0.01)	(0.01)	n.a.
06/19a	0.54	(3.62)	(5.58)	(5.06)	(0.01)	(0.01)	n.a.
06/20a	5.37	(2.05)	(12.36)	(9.22)	(0.02)	(0.02)	9.6
06/21a	6.72	(4.75)	(5.80)	(6.02)	(0.01)	(0.01)	7.7

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

^calculated from current enterprise value

Health Care Equipment & Services

11th March 2022

Share Details

ASX code	AT1
Share price	\$0.115
Market capitalisation	\$65.4M
Shares on issue	568.6M
Net cash at 31-Dec-2021	\$13.7M
Free float	67.0%

Share Performance (12 months)



Upside Case

- Continued opportunity for COVID and HIV sales
- Home-testing market increases significantly
- Increasing OEM and engagement in US

Downside Case

- Supply chain constraints may slow growth
- COVID market demand in Australia uncertain
- US regulatory approval timelines uncertain

Catalysts

- TGA approval for a COVID RAT self-test
- New distribution and manufacturing partners

Comparable Companies (Aust/NZ)

Genetic Signatures (ASX:GSS), Universal Biosensors (ASX:UBI), Lumos Diagnostics (ASX:LXD)

Board and Management

John Keith	Non-Executive Chair
John Kelly	Chief Executive Officer
Deborah Neff	Non-Executive Director
Dr Curt LaBelle	Non-Executive Director
Dr Paul Kasian	Non-Executive Director

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FINANCIAL SERVICES GUIDE

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