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Too stressed

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Peter Emery

Listed medical tech Medigard is raising capital to tap into the lucrative health market in the US with its blood collection device (BCD) and a range of safe retractable needles.

JASON OXENBRIDGE

THERE'S a satirical illustration on a pin board near chief executive Peter Emery's desk with the slogan 'If your horse dies, get off'.

It's an apt aphorism for Emery, who at times might have felt as though he was flogging a dead horse at the publicly listed Medigard (MGZ).

While Medigard shares have largely traded sideways on the ASX since 2005, there have also been delays associated with signing a manufacturer and a distributor in the US.

Its BCD has received regulatory approval from the US Food and Drug Administration but a couple of significant hurdles remain. Raising sufficient capital to get the first product into production and then securing sales – the divisive factor.

"The next 12 months is critical for Medigard," says Emery, a former lawyer and investment banker from Sydney.

"We need Medigard to really fire and this is the time for it. It's true that we have taken probably longer than we thought for reasons that we probably didn't have enough money to start with. We loaned \$3.4 million, some of which we still have, but it has been very frugally managed.

"Up until now it's been a part time job of necessity. This is the time where we need to get it up the road and this capital raising is what we need and we need to push it really hard now."

The company has launched a rights issue for shareholders to undertake a \$4.8 million capital raising to manufacture its device. Existing shareholders will be offered 74 million new shares at 6.5c with an attached option for 9.5c if exercised before June 30, 2011. The rights can be traded from July 30 to August 18, before the issue of new shares which will start trading on September 2.

The company needs to raise at least \$1.57 million to get the US manufacturing process underway. Production is an eight to 10 month process. Emery says additional funds will support R&D, IP and working capital.

MEDIGARD

injects into the US



"That's what we need in the very minimum just to get the tooling completed on the blood collection device," he says.

"The \$4.8 million is deliberate to give our own investors an opportunity under the rights issue. We believe it's a pretty attractive offer.

"The capital raising is a necessary step, but a good step. This is banking our investments of the past six years, this is what we're on about and we're one of the few to gain entry into one of the world's tech markets.

"The hard part is kind of over, but until we get orders, it's never over. This is a difficult time, there have certainly been better times to raise capital, but I also believe for the right story and the right price it's still a good proposition.

"We have good expectations that it will be well taken up by existing shareholders. Half of our shareholding (53 per cent) is held by two of the founders and then there are existing friends and family of Medigard. A proportion of it has to be contributed by those from within Medigard."

Increasing the investor base

Medigard must increase the depth of its shareholding and find some liquidity – a challenge given that 53 per cent is owned by directors and founders Peter Clark and Don Channer. Indications are that both Channer and Clark could dilute by not participating in the offer.

"The reason that we have gone out for another 74 million shares is to double our shareholder base and to get more people into Medigard," says Emery.

"To that end it may be that existing shareholders within the company decide not to participate. It may not be taken up entirely because of that shareholder base. We are realistic about that. They have indicated that they don't have the money. But the overall aim is to diversify the shareholder base."

A cornerstone US investor is also being sought to propel the company to the next stage of production. Medigard chose the

US over Asian export markets to ensure the quality of the products is maintained.

"Through selecting the right manufacturer, we will be able to deliver a price competitive product that is also of the highest quality, which will be of key importance to our success in the US market," says Emery.

"These two key agreements (finding a manufacturer and a distributor) we have been working towards for some time and are the culmination of months of negotiation, personal visits and the necessity of building key relationships.

"Both of our partners are commercially savvy and experienced operators and we look forward to working with them not only on the BCD, but also in development and production of our pipeline of products starting next with our 3mL syringe.

"We are having discussions with a few potential cornerstone investors and talking to a number of funds in the US that like what we do, so they may also be able to provide a cornerstone investor."

Emery expects to see revenues within 18 months with up to US\$40 million annual revenue forecast over a five year period following a deal the company stitched with distributor Outcome Solutions and an US undisclosed manufacturer.

"That depends on the manufacture of a complete range of our products. If you anticipate a reasonable market share, something reasonable, nothing greedy, it's not hard to see that \$40 million is a reasonable figure," he says.

The Medigard board concedes a degree of risk and until sales can be achieved, prospects are speculative.

"It continues to be a speculative investment because we don't have sales yet. I'm going to tell you honestly that we don't have any orders at the moment, all we have are people in America who really like the product," says Emery.

"It's almost a nano-cap at the moment. Does the stock get to \$1? I think pretty easily if all of our products come on board. We have seen our competitors reach the \$3 mark and fall back down."

The battle to survive

Medigard was floated in 2004 by Channer and Clark. Prior to that it was known as Medisafe Instruments.

Clark was approached in 1999 by local inventor Lewis Ryles, who had patents expiring on a retractable syringe. Both Clark and Channer realised its potential but momentum was halted by the tech wreck of 2000.

"The US had indicated in 2001 that it had mandated safety medical devices and we started to build a business plan. I said to Don Channer, 'we need to float this thing'," says Clark.

There were 10 competitors around during the Medigard float. Unilife Medical Solutions floated at 20c and got to \$3.30, before taking its retractable syringe range offshore. Another company OMI floated at \$1 and went to \$5, but the Slacks Creek operation went into liquidation.

"We are the only ones left that are still doing what we said we would," says Emery.

"The others have either fallen by the wayside, done something different or gone offshore. Our competitors raised enormous amounts of money, way more than us, and then proceeded to spend it all. OMI was later sued by competitors in the US."

For Clark, the founder and business consultant who saw potential in the product almost a decade ago, Medigard is now on the verge of something special – make or break.

"I can't look down, it's a rollercoaster ride," he says.

"It has been risky, but there's a market there. I think I'm tarred with a certain brush, probably something to do with an MBA with courses in entrepreneurship."

Stockbroker Andy Semple, says the stock has been supported by investors that 'share the vision' – around 700 mums and dads.

"A lot of people love playing in this part of the market with penny stocks," says Semple.

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"They are such small bases, if there's liquidity and you check out, there's some good appeal to traders."

Emery concedes that liquidity is an issue, but is confident that following the next stage of capital raising, the company could see some institutional investors on the roster.

"It's acknowledged that liquidity is not great for Medigard because it is closely held by people who actually believe in the product and aren't prepared to trade their shares," he says.

"We have deliberately kept a low profile and some of our shareholders might say that we have kept too low a profile. But our deliberate policy was to say something when it was meaningful. There are long gaps in the knowledge. Our shareholders have been very patient. There's a strong core of shareholders particularly in Queensland who still like the story and still believe in the story."

Local technology on world stage

Medigard may seem out of place on the Gold Coast amid listed miners and property players, but Emery cites advantages.

"The Gold Coast is not a medical device hub, but it has its own strengths. There are innovative people here, it has a nice feel. It doesn't matter where you set this up. We talked about moving it to Brisbane but there's no real need to do that.

We like living here, so we choose to stay here," says Emery.

The initial agreement in the US is to supply a minimum 10 per cent of 700 million blood collection devices consumed by the US market per year. Four other Medigard products will also be put into production under the agreement.

"They can't really go out and market this unless they have a guaranteed supply. That in itself is another process. It's risky, and it's at a new level entering a new production into a new market. That doesn't happen overnight," says Emery.

"We're not giving this to one of the big boys, we are giving it to people who can go and sell this product. Outcome Solutions are already in this space and they have significant sales."

The technology itself was spurred by the need to reduce needle stick injuries for health care workers and nurses. The AIDS virus and other transmitted diseases via needle stick injury have guaranteed demand. But what makes Medigard's product any different to what's already on the market?

"It's revolutionary in terms of the technology as we use a vacuum to draw our needle back," says Emery.

"It will be price competitive and there's no aerosoling. It's better than most because it

doesn't have a fixed needle and so people can have interchangeable needles. The good news is that our syringe and blood collection device have been tested and trialled in real hospitals in the United States and almost without exception the nurses and clinicians say that if it was on the market now, they would buy it.

"It's always a good story because the ultimate aim of this is to help health care workers from getting needle stick injuries and this will stop that and there's a million of them around the world, half of which go unreported.

"The good side this is that its for the benefit of real people, doing real work and they shouldn't be exposed to some of the risks they are currently exposed to."

Having got this far, Medigard is not looking to exit any time soon. The company is taking on one of the largest medical markets in the developed world.

"The vision is to build this into a significant medical device company. This is not a one product company. We are starting with one product but the 3mL syringe will follow shortly. There is potential to take the company to the US or have an American subsidiary and eventually with cash flow to make some acquisitions ourselves," says Emery.