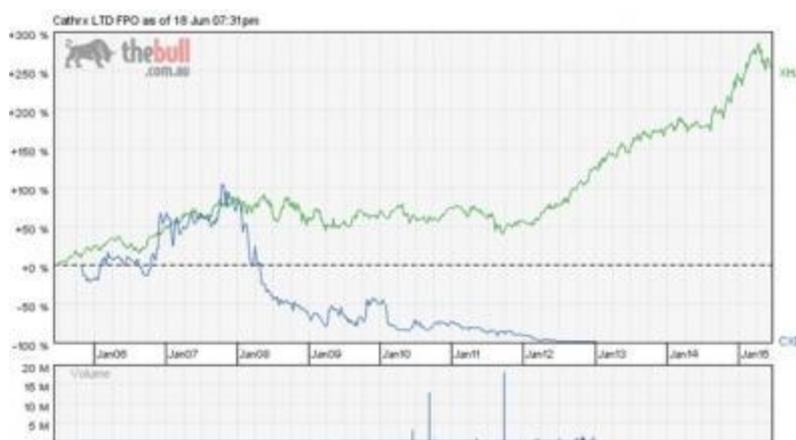


## 8 Speculative Medical Diagnostics Stocks



*By Bob Kohut | 22.06.2015*

Rising numbers of seniors interested in maintaining their health means substantial growth in the demand for diagnostic assessments. Recognising that the greatest returns often come from mid to small cap stocks, we identified eight ASX companies whose products find their way into diagnostic tests for a variety of medical conditions. Purists might look at our list as speculative in nature with high risk. There is truth in that sentiment. While the **ASX Healthcare Index (XHJ)** is up 250% over ten years, there have been casualties along the way. Consider the following chart comparing the XHJ against the performance of now delisted **Cathrx Limited (CXD)**.



CXD listed on the ASX in 2005 at \$1.00 per share and doubled in share price in two years before slipping into oblivion. The company was involved in cardiac monitoring and diagnostic devices and the dramatic rise in share price stands as evidence investors saw potential. However, the poor share price performance of this company is no reason to reject "speculative" stocks. The truth is, all stocks, large and small, are inherently

speculative. If you doubt that, consider the bankruptcy of US automaker General Motors, once the largest corporation on the planet.

Having said that let us turn to the eight ASX medical diagnostic stocks. Some are already burning brightly on radar screens while others have yet to catch fire. We listed them by 52 week percentage gain or loss. Here is the table.

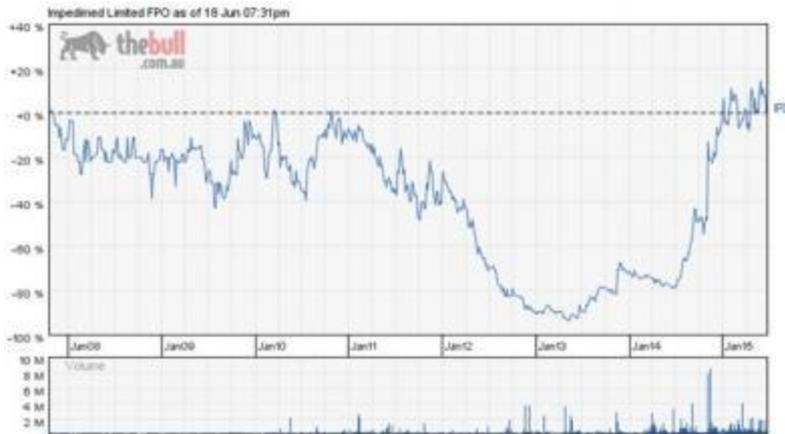
Company (CODE)	Market Cap	Share Price {52 Week % Change}	Average Daily Trading Volume (3 Months)	Total Debt (MRQ)	Total Cash on Hand (MRQ)	Gearing
Impedimed (IPD)	\$253.7m	\$0.52 {+368%}	516k	0	\$38.2m	0
Compumedics (CMP)	\$48.9m	\$0.27 {+90%}	257k	\$2.6m	\$1.75m	25%
AtCor Medical (ACG)	\$32.3m	\$0.19 {+90%}	444k	0	\$2.5m	0
Ellex Medical Lasers (ELX)	\$35.5	\$0.22 {=3%}	43k	\$6.4m	\$3.9m	17%
Brain Resource (BRC)	\$29.5m	\$0.22 {-14%}	9k	\$10.03m	\$7.2m	42%
USCOM (UCM)	\$17.2m	\$0.21 {-14%}	14k	0	\$1.0m	0
Cogstate (CGS)	\$26.2m	\$0.24 {-18%}	40k	0	\$5.2m	0
Anteo Diagnostics (ADO)	\$66.9m	\$0.78 {-60%}	1.3m	0	\$6.6m	0

One important measure of highly speculative stocks often overlooked by investors is liquidity. No investor should ever take a position without giving thought to an exit plan. If you look at the table you can easily see the daily trading volume for **Anteo Diagnostics Limited (ADO)** means selling all or some of a position in that stock would be far easier than trying to exit a very thinly traded stock like **Brain Resource Limited (BRC)**.

Debt and analyst coverage are two other important issues to consider when investing in speculative stocks. None of the stocks in the table have yet to show consistent profitability, but none have significant debt issues.

Analyst coverage helps investors monitor the stock. Stocks with little or no analyst coverage rarely merit a mention in the financial news websites. There are only three stocks in the table with analyst coverage. **Impedimed Limited (IPD)** has three analysts covering the stock, with one Strong Buy and 2 at Buy; **Brain Resource Limited (BRC)** and Ellex Medical Lasers Limited (ELX) each with a single analyst with a Buy recommendation.

Impedimed is the hot stock right now, but investors who bought the stock on its first trading day of 24 October 2007 at \$0.80 are just getting above water. Here is a ten year price movement chart for IPD.

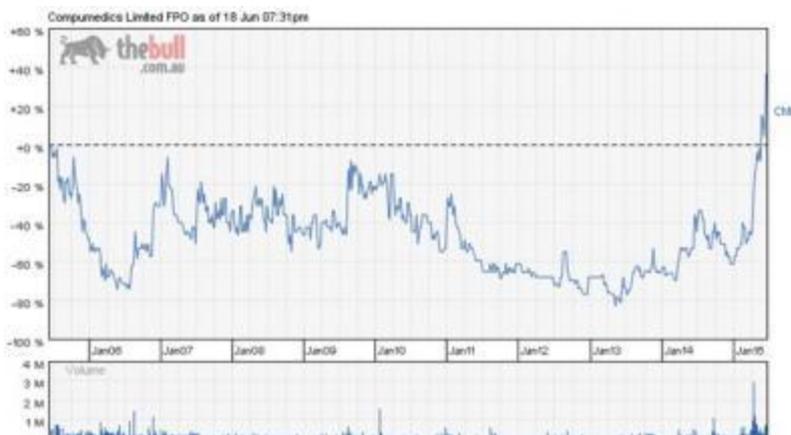


Impedimed is one of those companies with an impressive sounding technology used to develop its products --**Bioimpedance Spectroscopy (BIS)**. The company makes medical devices for aiding in the clinical assessment of lymphedema and body composition. Lymphedema is a side effect of cancer treatment that causes a swelling in the arms or legs. If undetected, lymphedema can lead to a loss of the limb.

Originally targeting breast cancer patients, IPD shares took off in September 2013 with positive news from the **American Medical Association (AMA)**, expanding the use of Impedimed assessment devices to all cancer patients. The company has seen revenue increases over the last three years but has yet to show a profit. While the share price run-up might make this stock look expensive, the expansion of the potential market for the company's devices makes this stock one to watch.

**Compumedics Limited (CMP)** is a diversified company with computer based clinical diagnostic technologies targeting sleep and neurology disorders. The company was built on diagnostic instruments for sleep disorders. IPD now holds the largest market share in Australia for sleep and neurological disorders; number one in Japan for sleep disorders; and number three in the US for sleep disorders.

Despite its impressive market share, the company has struggled with profitability, breaking back into the black in FY 2014. Long term shareholders have had a wild ride, with the share price finally breaking into positive territory only this year. Here is a ten year chart for CPM.



Compumedics is now focusing on developing two eHealth platforms based on its sleep disorder diagnostic devices. One will be for the use of medical practitioners and the other for consumers.

The share price took off in April this year when the company's German subsidiary was awarded a patent on a diagnostic device for strokes and traumatic brain injury. The patent is for a new approach to ultrasound diagnosis and treatment of stroke. The company is aiming to develop a monitor system for traumatic brain injury (TBI), together with an automatic system that would help prevent and provide treatment for stroke. Compumedics turned profitable in FY 2014 on increasing revenue. Half Year 2015 results showed an 8% revenue increase with profit more than doubling, up 125%. Since April the company has announced new contract awards in China and the US.

**Atcor Medical Limited (ACG)** makes medical devices for measuring blood pressure and arterial stiffness using yet another futuristic sounding technology -- SphygmoCor®. The SphygmoCor® system was selected as the diagnostic tool of choice in a French study looking into a possible link between arterial stiffness and Alzheimer's disease. Despite showing its first ever profit for the Half Year 2015 following a loss in the previous corresponding period, the share price was languishing until a 10 March 2015 announcement of positive news, once again from the AMA. As they did with Impedimed, the AMA recommended an insurance Category-1 code for Atcor devices, allowing higher reimbursement rates. The company recently had a successful capital raise, with the proceeds going towards additional staffing needed for the official beginning of the new code in January 2016.

While more and more serious health conditions previously affecting seniors are lessening in severity, the fear of senility and Alzheimer's remains uppermost in the minds of those growing older. **Brain Resource Limited (BRC)** and **CogState Limited (CGS)** are both involved in assessing brain function.

CogState is the larger of the two in terms of liquidity and long term share price appreciation. The following ten year price movement chart compares the two.



CogState makes a Computerized Cognitive Assessment Tool (CCAT) used for healthcare assessments; brain injuries; academic research; and clinical trials. The tool is now used to detect concussions in athletes. It is quick and can be administered online.

Another CogState tool, the computerized brief battery (CBB), was featured in research published in The Journal of Alzheimer's Disease as a superior method of detecting early signs of the disease rather than direct observation. The use of CogState tools for clinical research has expanded dramatically this year, with a record US\$21.9 million in contract awards. Perhaps the most promising is the series of awards from a major international pharmaceutical company for use of CogState assessment tests in a Phase III clinical trial for treatment of depression.

With a daily trading volume of around 9,000 shares, BRC qualifies as an "under the radar" stock. Yet there is at least one analyst recommending investors Buy the stock. Brain Resource has a commercially available product for consumers, clinicians, and employers, that not only assesses brain health, but also provides training for improving brain functioning. The company is sponsoring the iSPOT trials (International Studies to Predict Optimized Treatment Response) focusing on clinical depression and ADHD (Attention Deficit Hyperactivity Disorder). Brain Resource is seeking FDA approval for a test based on research findings to date. Capital raises are funding company expansion efforts to further penetrate the US Fortune 500 companies. BRC trades both here in Australia and in the US on the Over the Counter market. With products geared for professionals, consumers, and businesses this stock deserves a place on a watchlist.

**Ellex Medical Lasers Limited (ELX)** serves the Ophthalmology sector with lasers and ultrasound devices used to diagnose and treat eye diseases. In business since 1985, today the company claims there are more than 20,000 Ellex lasers and ultrasound devices in use around the world. On 6 May the company reported the findings of an independent research study of the global ophthalmic laser market conducted by Market Scope. The report valued the current global market at \$US 412 million per year with a growth forecast of 4.5% per year through 2020. The 4.5% growth rate is an increase from the prior figure of 3.5%.

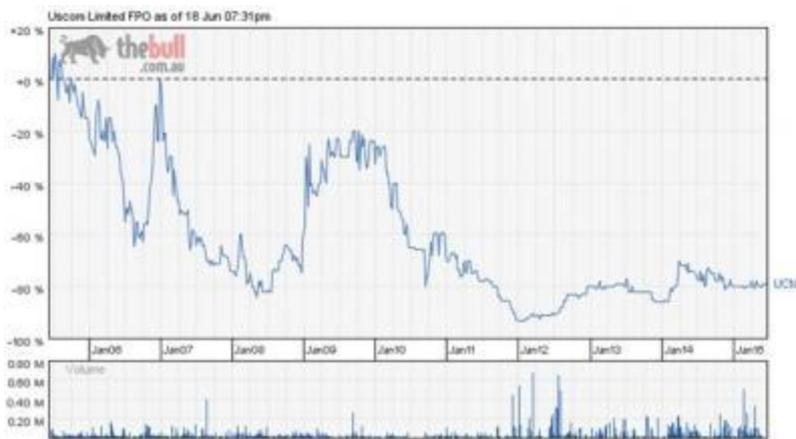
Equally important to investors was the finding that Ellex had grown its market share to 14.2%, up from 12.7% in the previous corresponding period. Ellex is now only 0.3% behind the global market leader whereas last year the company trailed the leader by 4.1%

The ELX share price is essentially flat year over year, but over two years the price is up 60% and about 120% over five years. The five year price performance matches that of the ASX Health Care Index. Here is the chart.



**USCOM Limited (UCM)** is another thinly traded stock with no apparent analyst coverage. The company makes cardiac monitoring devices. Uscom refers to itself as a “revenue stage” company, announcing a 147% revenue increase for the Half Year 2015. Profit has yet to be seen, but the loss was pared to \$0.39 million, down from \$0.65 million a year ago. The company has had a presence in China for some time and is seeking approval from the Chinese version of the FDA for additional devices. Uscom recently released findings of a research study showing its flagship product, USCOM 1A, can detect high blood pressure problems in pregnant women as early as five weeks into the pregnancy.

While there may be potential in the company’s Chinese efforts, long term shareholders of UCM have little reason to be satisfied. The stock has lost 80% of its value over ten years. Here is the chart.

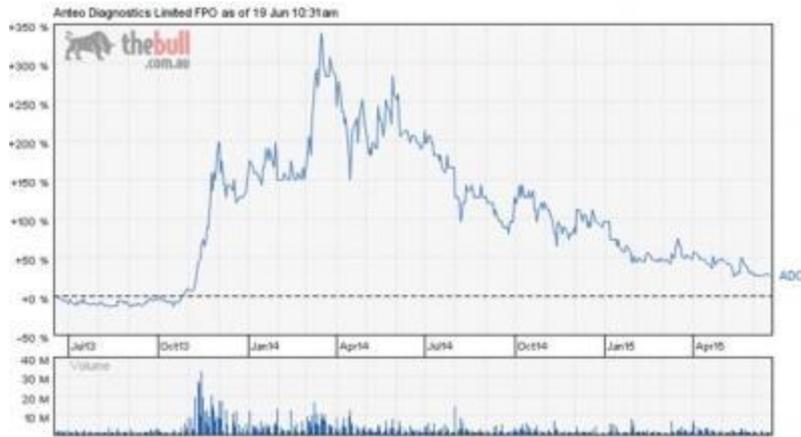


The final stock in the table is biotechnology company **Anteo Diagnostics Limited (ADO)**. Anteo’s technology, called Nanoglue, is a nanotechnology application the company markets for IVD (In Vitro Diagnostics) and Life Sciences. The company is in the process of applying Nanoglue to other medical devices and lithium-ion battery applications as well.

Nanotechnology is essentially chemistry at the molecular level. Anteo’s primary product for healthcare applications is called Mix&Go™. The term Nanoglue connotes images of applying or “sticking” materials to solid surfaces, which is what this high tech application does.

The company has filed a patent for development of a proprietary diagnostic test for blood purification and is developing the product with a “global life science company.” Anteo has partnership arrangements with University of Queensland and Cook Medical Australia to use Nanoglue in the implantable medical device market. A recent investor presentation stated the company’s intention to file a patent “in the near future.”

The share price got a big bump from the November 2013 announcement of an agreement with global diagnostic company BBI Solutions to explore using Mix&Go™. It has been downhill since. Here is a two year price movement chart for ADO.



Anteo has yet to show a profit but investors should take note of the two new patent filings in 2015; partnership arrangements with an unknown “global healthcare company” as well as arrangements with Cook Medical here and Veritas Corporation in Japan; and a successful capital raise to fund development of the company’s entry into the battery technology sector.

<http://www.thebull.com.au/premium/a/54353-8-speculative-medical-diagnostics-stocks.html>