

# TIP OF THE DAY

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## Buy Akers Biosciences at 11.875p

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**The Business:** In terms of share price performance, Akers Biosciences has not been the most successful member of the AIM community in fact it is almost in the 90% club. Joining the market in May 2002 at 136p per share the developer of diagnostic screening and testing products saw its shares lose over 90% of their value within less than a year of listing. Although there was a reasonable recovery in the following years, since late 2005 the shares have again been on a downward trend and now trade at just 11.875p

All was looking good at the time of the IPO with the company, through a distributor, having received a number of contracts from the Kenyan Government for its malaria, HIV, hepatitis and syphilis testing products. Unfortunately these contracts, which were backed by the World Bank, had to be written off when in 2003 the organisation pulled all aid funding from the country on the back of concerns over corruption. That was a big setback for the company but since then Akers has changed its strategy and now looks back on track to rapidly grow revenues and profits in the coming years.

From its inception in 1989 Akers was primarily focused on the research and development of its technology. Before 2006 the company had over 30 products in various stages of development but had minimal focus on sales and marketing. At that point the scientists were firmly in charge. Since February 2007 however, with the promotion of former non-executive director, Thomas Nicolette, to the position of President, the company began a new marketing driven strategy in order to capitalise on its extensive product portfolio of diagnostic testing technologies and products. Akers current products are based on six proprietary platform technologies that have the common theme of enabling products derived from them to be fast and easy to use, readable, accurate, flexible and are patented or have patents pending. The six

technologies and what they do are:

- Particle ImmunoFiltration Assay (PIFA)<sup>®</sup> is based on selective filtration of microparticles in response to antibody/ antigen binding. Products developed using this technology, including for testing HIV, malaria, various sexually transmitted diseases, and others, can produce results in minutes compared to days in laboratory based tests.
- Synthetic Macrocyclic Complex help to determine levels of therapeutic drugs using compounds and electronic devices.
- MPC Biosensor - can determine the presence of biomarkers in breath condensate
- minDNA - facilitates the rapid analysis of DNA using a handheld reader.
- Rapid Enzymatic Assay can analyse levels of cholesterol and testosterone in blood and urine.
- Biosniffer - as the name suggests is able to detect (sniff) and provide real time information on bio warfare agents. Across the technologies the company has developed a number of products which have gained regulatory approvals in both the US and EU.

Two of these are currently delivering the majority of revenues for the company.

Firstly, BreathScan, which is based on the MPC Biosensor technology, is a handheld alcohol breathalyser which is currently being sold, via various distributors, to the US Department of Defense (sic). The company is the only manufacturer of portable, disposable alcohol breathalysers in the US. BreathScan is used by the US Army and Navy in hope of reducing the number of incidents related to alcohol. The product operates on a razor/razorblade model with a handheld keyfob requiring a refill after every use, thereby providing an opportunity for the company to earn additional sales as the product is used.

The second major revenue driver is the PIFA Heparin/ Platelet Factor 4. This product is the only US Food & Drug Administration approved manual device that screens for the detection of a potentially life-threatening allergy to the widely prescribed blood thinner, Heparin, a drug which is used in conjunction with several types of surgery. It is also the only test available on the market that can provide real-time information that can be useful in putting together a clinical diagnosis. The unit is currently being sold into the US clinical laboratory market mainly through distributors Cardinal Health and Corgenix Medical Corporation. An additional distributor, Trinity Biotech, was signed up in June this year, strengthening the company's presence in

the US and opening up the possibility of sales into the German marketplace.

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**Current Trading:** Results for the six months to 30th June 2008 demonstrated that the new sales focused strategy is delivering significant benefits. Revenues, driven by sales of alcohol breathalyser units and the PIFA Heparin Rapid Assay product, grew by 61% over the period to \$3.4 million. Gross profits more than doubled to \$2.3 million as margins improved by 16 percentage points to 67%. Administrative and research and development expenses were cut by 15% over the period and that helped operating profits grow to \$706,506 compared to a loss of \$807,409 in the first half of 2007. Akers delivered maiden pre and post tax profits of \$251,008 over the half, compared to a loss of \$1,119,343 in the comparative period. Encouragingly the business also improved cash flow, with a \$625,000 inflow from operating activities compared to a \$139,439 inflow in the first half of 2007. This was helped by reduction in the volume of inventory of 36%.

The balance sheet was also significantly enhanced during the period. At the end of December 2007 Akers has net liabilities of \$443,378, but, due to various events, at the end of June the company had net assets of \$9.6 million. As well as enjoying profitable trading Akers benefitted from investment of £2.275 million in June 2008 from private investors Saltburn Limited. Also in June the US hedge fund Brittany Capital, the company's major shareholder, converted its outstanding convertible loans in the company, which further strengthened the balance sheet. Akers ended the period with cash in the bank of \$5.1 million and net cash of around \$4.6 million. Following the year end the company has repaid all borrowings and is now debt free.



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**Opportunities & Threats:** Akers is set to rapidly increase sales of its two main products over the coming years. With BreathScan able to deliver additional revenues from the sales of disposables there is an opportunity for the company to earn further revenues through its current contracts with the US Department of Defense. Opportunities for sales outside the US provide further upside. We see this as an attractive growth area given the current ethical climate which is seeing the promotion of responsible drinking amongst many government organisations and interest groups.

In terms of the PIFA Heparin/Platelet Factor 4 product, research suggests that around 8% of people have an allergic reaction to Heparin, which in some instances this can prove to be fatal. While there are significant opportunities to sell this product in the US, where the circa 9,000 hospitals in the country provide a massive potential market, the issue is whether the industry chooses to use the product as a standard for testing patients upon whom Heparin is used. Boding well for the company is the increased media coverage of the side effects of the drug following a number of deaths in the UK and Europe in recent months.

Akers also has several other products which could potentially deliver further streams of revenue in the coming years. The Tri-Cholesterol Test Kit is the only FDA - approved rapid assay that is able to provide a complete cholesterol profile of a

patient and total cholesterol levels in whole blood. The company plans to relaunch this product through new distribution channels which are currently being evaluated. The Free Radical Enzymatic Device (or FReD) is designed to monitor the efficacy and dosing requirements of anti-oxidants which are said to help combat the damaging effects of free radicals in the body. The product is expected to be launched in late 2008. The Battlefield Blood Transfusion Card is designed for the rapid testing of the compatibility of recipient blood for transfusions in battlefield situations. The card has already seen initial sales from the US military and Akers is in discussions regarding expansion into the emergency hospital room market.

Akers has a number of other products that could be revenue generating in the medium-term but for reasons of space we can not cover them all. In terms of risks the US Ministry of Defense is the Akers's largest customer by a long way, so the loss of contracts from the body would hit the company badly. As with any technology company the company also faces the challenge of protecting its patents.

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**Conclusion:** Akers has transformed itself over the past year. The balance sheet is now clean and free from debt and the posting of maiden profits in the first half of the current year represented a significant milestone. In addition, with the new strategy resulting in markedly lower R&D costs the company does not face the prospect of those kind of expenses significantly eating into future cash flows.

In the current year to 31st December 2008 Akers' house broker expects revenues to rise to \$9.3 million, with maiden full year pre-tax profits amounting to \$2.7 million and earnings to 2.2 cents. These numbers are mostly based upon forecast sales of the BreathScan and PIFA products. As such there is considerable upside to the forecasts if other products manage to make inroads into their respective markets.

The house broker's forecasts for 2009, which are under review, currently show earnings of 4.3 cents. Using that figure, and an exchange rate of £1:\$1.7, the shares are currently trading on a forward price earnings multiple of 4.7 times. That looks cheap in itself but even better value given that we expect the 2009 earnings forecast to be increased shortly - plausibly this stock trades on a 2009 PE of 4 or lower. In addition, given the current market conditions, and the company's exposure to the resilient healthcare and military markets, along with the patents and regulatory approvals that provide significant barriers to entry, we believe that Akers looks

attractive. **BUY.**

**Key Data**

EPIC: [AKR](#)

Market: AIM

Spread: 11.25p- 12.50p (10%)

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