

Background

Having raised somewhere in the region of \$50m under the previous management team, including funds from the IPO in 2002, Akers soon lost a major contract for HIV testing kits which came as a disappointment and set the tone for a period of underperformance. However, the new management that arrived in 2005 has turned the company around, making it profitable (something very rare for a company of its size and in its sector) and debt free – with net cash of \$4.3m at the FY08 year-end. The management has also capitalised on c.\$30m of R&D spend which has left the company with a very strong technology base across six platforms, and these are now starting to show their potential; the R&D for FY08 was only \$400,000 and is set to remain at this level for FY09 too.

Divisional Breakdown

The key product over the past year has been the **BreathScan** analyser (c.35% of revenue in FY08, forecast to grow by 175% this year due to restocking effects), an alcohol breathalyser which has been implemented by the US military as a drink driving deterrent protocol - and is now in use by up to 2 million service personnel. In addition to being the current source of cash generation for the group, this contract also provides in-roads into the US military procurement departments, and creates opportunities to sell other products, including potentially battlefield blood transfusion testing kits. Unlike other products Akers sell as a “razor/razorblade” model, this product is sold as a single use test, which is manufactured in-house. The contract with the US government is renewed on a yearly basis, although there was a delay in the renewal of the current contract, until it was rectified by the recent Obama stimulus package. Current market forecasts are based upon the sale of two of the BreathScan tests per military user over the whole year, although we feel this figure is very conservative and would be looking for the company to overshoot.

In addition to selling into the US government Akers has recently entered into an agreement with Inverness Medical – a global leader in the diagnostic field - which will see a “zero tolerance” variant of the breathalyser sold in large retailers, and aimed at the parents of teenagers. Other products targeted at the over the counter market include the Tri-Cholesterol test, which is the only rapid self test for HDL cholesterol (good), LDL (bad) cholesterol and total cholesterol. Home cholesterol tests are the fastest growing home tests in the US and the Akers Biosciences product will be sold under the “First Check” brand, the market leader. This agreement sees the stock sold in Walmart, K-Mart, Walgreens and Target.

The other major product, which operates on the same technology as the **BreathScan** analyser (i.e. using the MPC Biosensor platform), is the **Free Radical Enzymatic Device (FReD)**, which contributed 41% of revenue in 2008 (and is forecast to grow at 20% this year). This product is the only non-invasive test in the world which can evaluate free radical activity in the body through a breath test, and is sold exclusively through PULSE Health - following the January 2009 \$3m transfer of the technology to them, with an accompanying supply and royalty payment agreement; the terms of which have not yet been disclosed. Free radicals are highly reactive chemical species which are created in the body naturally, but can also be generated in larger quantities by smoking, sunbathing and certain dietary choices – they have been implicated in disease states and as a factor in accelerated aging. The basis of this product is that nutritionists, and soon end users, will be able to quantitatively measure the levels of free radicals in their bodies, before and after the use of antioxidant products (does that expensive vitamin supplement really work etc?) and look for improvements. This is a way of gaining exposure to the multi-billion dollar food supplements market in the US, and it is likely the device will be pulled through by the nutraceutical manufacturers, and potentially given to clients of the nutraceuticals companies when their products are sold.

As it is, the CEO believes its key product going forward is the **PIFA Heparin/PF4 Rapid Assay** (17% of revenue in FY08 and is forecast to grow at 53% this year), which is a test for tolerance to a routinely used anticoagulant drug called Heparin – used in many major surgical procedures. It is estimated that 8% of the world population have an antibody which makes them resistant to the effects of the drug, which can lead to fatal complications during surgery. Unlike current technology - which requires a lab test which can take between 24-48 hours, the Akers product offers near instant results – which are critical in emergency operations. This is a high margin product (c.75% gross margin) which is sold through a variety of distributors globally, including Cardinal Health (US hospitals) and Trinity Biotech (US labs) and Corgenix in the UK.

In addition to having a good portfolio of active products, the company also has a pipeline of tests with strong prospects in huge target markets. Firstly, the company has a **breath test for Ketoacidosis** projected for launch in Q2 2009. Ketoacidosis is a potentially life threatening condition which can occur in any diabetic patients (there are 220 million people with diabetes worldwide) and requires immediate medical attention. There are currently periodic blood/urine screenings to monitor ketone levels, so these could be done away with and replaced with more constant monitoring with the use of this product. With any technology orientated company of this size there will always be a takeover angle – in the case of AKR, this product looks most likely to receive attention from big pharma who have interests in the treatment of diabetes.

The second test in the pipeline, due for release in Q4 2009, is a test for **biomarkers related to lung cancer** (which kills 1.4m people annually), which is effective from the early stages of the disease. This test would have huge potential for self-tests in high risk populations (e.g. smokers) and would offer an alternative to exceptionally costly diagnostic scans such as MRI/CT scanning

Financials

In June 2008 the company entered into a transaction which saw a holder of a convertible bond exercise the convertible option and associated interest in full. At the same time the company raised £2.3m in a private placing through existing shareholders. This saw a \$10m equity swing from negative to positive and resulted in the elimination of all debt and outstanding convertible shares.

Current broker forecasts are for the near doubling of revenues in 2009 (to \$11.6m), PBT of \$4.9m and EPS of 3.1c. The company also has what feels to be a sustainable gross profit margin of 77%. Given the solid earnings streams the company has from the US government, whilst having several products with blockbuster potential (including the lung cancer and diabetes breathtest products) the current rating of 7.2x FY09 looks undemanding.

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