

A cancer detection solution leads to rapid sales growth (FRA: PHS)

29.11.2018 | James McDonald, Pengana High Conviction Equities Fund

- Photocure (FRA: PHS) develops a liquid called Cysview which is used in the detection of cancerous cells in the bladder.
- The product has been sold with great success in Europe.
- Photocure has a small market capitalisation and revenue compared to the potential US market opportunity.
- We predict that it will be difficult for a competitor to enter the key US market due to the way the current product is distributed and regulated.

Photocure (FRA: PHS), also known as The Bladder Cancer Company, develops products and services with the aim of improving the lives of bladder cancer patients. Among their stable of solutions is the liquid Cysview, which is injected into the bladder to increase the detection of bladder cancer during surgery and follow-up monitoring. Once the liquid is injected, cancerous cells glow red when illuminated with a purpose built blue light, allowing the cancer to be identified and surgically removed, reducing the likelihood of future recurrence.

Photocure has a current market capitalisation of USD \$130m and we estimate 2018 revenue of USD \$25m which is small compared to the potential US market opportunity valued at \$1.3bn. The company has also had great success selling its product in Europe, with an 80% penetration in bladder surgery procedures in Scandinavia followed by 30% in Germany.

Whilst penetration stands at only 2% in the USA the government's recent announcement they would provide a rebate for the product has seen revenue growth accelerate from 36% year-on-year in the first quarter of 2018 to 56% year-on-year in the second. The accelerating sales growth, coupled with the company having no debt and low market value relative to its market opportunity, have positioned this stock as a favourite in the portfolio. We believe the company has a unique razor and razorblades model that will lead to a strong long-term defensible business model. This is due to the liquid and light source being approved together. The light source costs \$80,000 each and most urologists will only purchase one lamp, making it difficult for a second player to enter the market. The product also requires a high touch sales force offering training and support to urology clinics making generic entry into the market less likely.

We have chosen to invest in this stock for the following main reasons:

1. **Growth potential:** the company has a comparatively small market capitalisation compared to the current market opportunity.
2. **International success:** the company has already experienced success selling their product Cysview in Europe.
3. **The government rebate:** The US government's rebate announcement has resulted in rapid growth.
4. **New CEO** with strong track record in growing medical device businesses in US market. We were able to take advantage of share price weakness to purchase shares at an attractive price.

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