



NuSep Profile

NuSep	ASX: NSP
Index:	Pharmaceutical & Biotechnology
Current Price:	25 cents
PE Ratio:	1 times 2009/10 projected Net Profit

Company Overview

NuSep (NSP) is an Australian company which develops, manufactures and sells patented products used by life science researchers in the BioSeparations markets.

NuSep is seen as the industry innovator having introduced many firsts into the BioSeparations market including the MF10 and the SpermSep. This is highlighted by the number of OEM or private label products that NuSep currently supplies.

Over 80% of NuSep's sales are in the US and they are growing at an average of 20% year on year. MF10 sales are also continuing to grow. NuSep is also developing the SpermSep instrument to separate sperm for IVF applications.

NuSep is a company with a solid sales business that has significant upside as its new products, particularly the SpermSep, reach the market. The markets that NuSep addresses are all in the \$50m - \$100m range. NuSep's products are protected by international patents.

The Company is now through the risky R&D phase with solid sales in the Gels division and steady growth in the MF10 market. NuSep has extensive distribution and is growing its high margin direct sales out of its US Atlanta and German offices. It is expected that this sales and profit growth will continue over the next few years as a series of new products are released.

Key highlights

- NuSep has projected a profit of \$500,000 this financial year. This places the Company on a PE of 1. The average PE for this sector is 15.
- The Company has consistently reduced its loss over the last two years from \$5.5m in the financial year 2008 to a forecast \$3.5m last year as it lifts sales while stripping out costs through improved production and lower head count. There is a further \$1m saving this year, and ongoing years from the relocation to Lane Cove, Sydney.
- NuSep has a well established international distribution network consisting of both direct and private label distribution (OEM) channels. High margin direct internet sales now account for 20% of total *Gel* sales and continue to grow.
- The forecast revenue base of the company is diverse with around 80% of sales generated in the US. The main contributor to sales is the *Gel* products (over

50% of FY2009 sales). NuSep is the third largest supplier to the US Gel market with a market share of approximately 7%. The Company has significant room to grow market share in this US\$100m market.

- The Company launched the patented MF10 protein separation instrument last year and it has taken a year for the market to adopt this technology. We expect the Company to sell 70 of these instruments this year with a margin of 80%+. These sales will also generate ongoing high margin consumable sales.
- Post the \$2m SPO capital raising the Company will complete the manufacture of the final SpermSep instrument. The Company expects to complete the final clinical trial for SpermSep early in the 2010 calendar year and sales to commence during the year. There is considerable clinical interest in this instrument. The Company has already filed a pre IND with the US FDA for human clinical use and the regulatory hurdles appear to be relatively low as this is a non-invasive instrument. In addition, there is interest in the use of the SpermSep for veterinary applications. Veterinary applications do not have significant regulatory hurdles.
- Both the MF10 and the SpermSep products offer margins over 80%. As both of these products are covered by patents, the Company will be able to generate significant profits for NuSep well into the future. We expect NuSep to experience significant sales and profit growth over the next few years, particularly as the MF10 consumable sales grow.

The Markets in Detail

NuSep operates in five main markets. All of these markets are global and significant barriers (regulatory, patents & distribution channels) exist. NuSep is now a well established player in the Gels market and is using this position to open up the MF10 market. Demand for the SpermSep instrument has come from the IVF clinicians.

- **Precast electrophoresis gels** separate DNA and proteins (biological molecules). NSP is currently #3 in the US *Gels* market. NSP's major customer in US *Gels* market is a leading US laboratory supply company and they account for approximately 50% of NuSep's Gel sales. Direct internet sales account for 20% of the *Gel* sales and this high margin section is growing.

The global Precast Electrophoresis Gels market was estimated to be US\$100m in 2004, of which US\$55m was in the US. The US\$55m represents approximately 6.2m gels¹pa. This US\$55m market represents 55% of all gels used in the US each year. The remaining 45%² of this market, or 5m gels pa, represents the home made gels market. NuSep's products address this US\$55m precast gel market.

¹ Phortech International, The 2004/05 US MSPPSA Electrophoretic Equipment & Media Market, page 92.

² Phortech International, The 2004/05 US MSPPSA Electrophoretic Equipment & Media Market, page 87.

Over the last six months NuSep has seen significant increases in its gel OEM sales as additional marketing efforts have been brought to bear. Further, direct sales have increased since the US Government announced an additional US\$10B in biotechnology funding as part of the US stimulus package in January 2009. Finally, the Company holds significant forward orders from its OEM partner.

Over the last year the Company has continued to improve its manufacturing pass rate, which is now consistently above 90%. Over this time NuSep has also managed to simplify the manufacturing process, reducing cost and staff levels, while increasing the volume of sellable product. Gel manufacturing is now operating out of our new Lane Cove facility which is expected to lead to further product and cost improvements.

NuSep's products are patented and offer a number of advantages over the existing products. For example NuSep recently introduced a UV gel which allows scientists to view separations almost immediately after a separation as opposed to the current 24 hour delay. The Company has significant growth opportunities in the *Gels* market, although the margins are considerably lower than in the MF10/SpermSep markets.

➤ **MF10** (5% of FY2009 sales) – is a patented rapid separation instrument used to separate proteins into multiple fractions and designed specifically for the proteomic market.

The MF10 addresses the proteomic sample preparation market. Frost & Sullivan state that the US proteomics sample preparation market generated \$59 million in revenue in 2007 and is expected to reach \$103 million in 2011. This market is expected to grow at a compound rate of 15% across this period³.

NuSep launched the MF10 in 2008. Sales have continued to grow as NuSep expands market awareness of this innovative technology. The Company is pleased with the MF10 sales growth and has budgeted to sell 70 MF10 instruments this year. Sales of the MF10 are budgeted to exceed the Gels Division in the 2010/11 financial year.

The MF10 and the associated consumables are protected by a number of patents and undisclosed technology. The MF10 and particularly the associated consumables provide significantly higher margins than the Gels. Each MF10 is expected to generate approximately \$5,000 of 80%+ margin consumable sales pa. In many respects this is a 'razor blade' market, where consumable will quickly overtake the sales of the equipment.

NuSep is also developing a number of variants which will open up other markets including diagnostic applications.

➤ **SpermSep Instruments** (6.75% of FY2009 sales) – is a patented instrument used to prepare healthy sperm prior to fertility treatment. The SpermSep was developed by IVF researchers in conjunction with IVF clinicians to address an

³ Genetic Engineering & Biotechnology News Vol 27, No 16, September 15 2007

existing market need. The development of the SpermSep was supported by a \$2.2m Australian Federal Government grant. The launch of this product opens up a \$45m IVF consumables market for NSP.

The SpermSep CS10 was successfully evaluated for safety and efficacy in a 2008 clinical trial. This clinical trial involved 18 couples, 9 of whom used the SpermSep, and 9 that used the existing process. The SpermSep group had 3 live births and there was only 1 live birth in the other group. Following on from this study it was decided to redesign the consumables component of the SpermSep to address initial feedback from the regulatory authorities. The company expects to complete the manufacture of a second generation unit by the end of 2009 and will complete the next clinical trial in early 2010. NuSep manufactures the SpermSep instrument and consumables on the same production line as the MF10.

Sales are expected to commence once this second clinical trial is complete. The Company has also been approach to use the SpermSep in veterinary applications. This is a smaller market, but is subject to lower regulatory requirements, particularly in the US.

➤ **Consumables** associated with the use of *MF10* and *SpermSep*. Both the SpermSep and the MF10 require single use consumables. These consumables can only be supplied by NuSep. It is estimated that each instrument will use approximately half of its purchase price in consumables each year. These consumables generate over 80% gross margin to NuSep and it is expected that each instrument will have a 3 - 5 year life. It is estimated that consumable sales will exceed instrumentation sales from the FY2011/12.

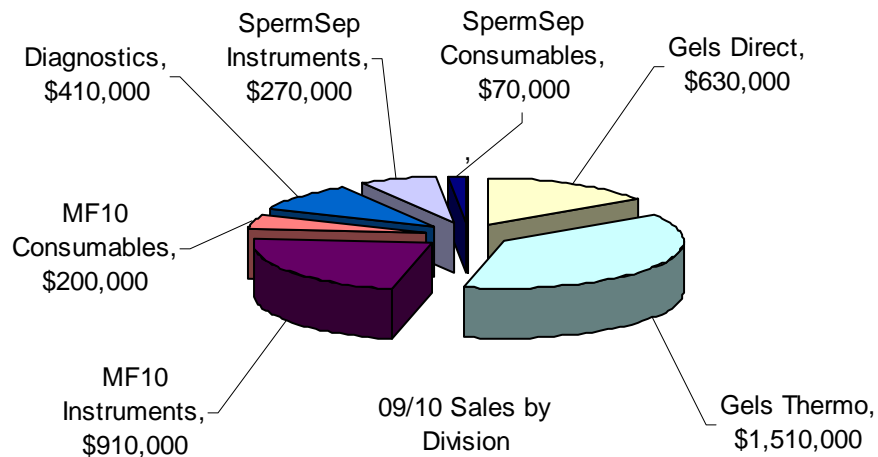
➤ **Diagnostics** – (10.25% of FY2009) – Blood clotting assays. NuSep distributes a number of these products in Australia. The Company is looking to expand this business because of the margins and the history the Company had in these markets prior to its spinout in 2006.

The Transition into Profitability

Over the last six months NuSep has been restructured into a profitable company. As a result of this NuSep is forecasting a profit of \$500,000 for FY2009/2010. This turn around has been achieved by cutting costs, reducing head count, increasing the manufacturing pass rate and increasing sales. In addition the company has moved to a new premises in Lane Cove which will provide an additional \$1m pa cost saving.

THE 09/10 PROFIT FORECAST

Sales	\$4m
Gross Margin	\$2.56m
Net Profit	\$0.51m
EBITDA	\$0.56m



- The \$500,000 profit in the FY09/10 builds on the significant ongoing reduction in the loss seen over the last two years.

Board & Management

One of NuSep's strongest assets is its Board & Management team. The Board & Management team has a combined biotech experience of over 100 years. This experience covers both commercial and research areas. The Board consists of:

John Manusu B.Com, F.Fin. –
Executive Chairman - Age 50.

Mr Manusu has over 20 years experience running biotechnology companies. He has been involved with start ups, turnarounds and mature organisations in the biotechnology space. Mr Manusu has undertaken a number of significant acquisitions and divestures, as well as raising over \$100 million in public funding and \$10 million of peer reviewed government R&D grants. Mr Manusu was a Director of Life Therapeutics Ltd (October 2003 to June 2007). Mr Manusu has a degree in Commerce and is a Fellow of the Financial Services Institute of Australasia. Mr Manusu has worked in the biotechnology industry in Australia and the U.S. and is best described as a biotechnology entrepreneur.

Dr Hari Nair BSc (Hons), PhD (Med & Clin Sci), MAIBiol, MOIF (Cambridge)
Managing Director - Age 52.

Dr Nair has a PhD in Medicine and Clinical Science from the Australian National University with his specialty in cardiovascular medicine and haematology. Dr Nair has received a number of awards from international organisations including being specially recognised for his role in coagulation research by the ACT government. He has run biotechnology companies in Australia and the US and was the CEO and Managing Director of Life Therapeutics Ltd (October 2003 to December 2007) where he transformed Life Therapeutics Ltd into the world leader in the collection of hyperimmune plasmas. Dr Nair has been heavily involved in mergers and acquisitions especially in the US and Europe and has US financial experience.

Iain Howard-Sorrell HND, LiBiol

Non executive Director - Age 52.

Mr Howard-Sorrell is based in the USA and has over 20 years experience in the Life Sciences arena. He has held senior sales and marketing positions in both corporate and start up businesses both in Europe and the USA. In addition to his extensive knowledge of the separations industry he has also set up and operated a successful import and distribution organisation in the USA. He is a graduate of the University of Plymouth in Applied Biology. In addition to on-going consultative roles he is also actively involved on the board of trustees for non-profit organisations. He is best recognised for his ability to develop new markets and co-ordinate international distribution.

William Spee

Non executive Director - Age 62

Mr Spee brings 30 years experience in running Manufacturing, Retail and Investment operations. He has a lifetime passion for science and technology and in addition to running his own Commercial Property Investment company has direct investments interests in several growing ventures. Mr Spee was a Flying Officer in the RAN, and completed his training in the US Navy. Mr Spee has run several small retail food businesses, has studied computer science at Macquarie and Canberra Universities before running a small scale electronic manufacturing venture. Mr Spee is passionate about the environment and is currently designing a new 6 green star commercial building in Northern Australia.

The Management team consists of:

Prakash Patel – CFO and General Manager

Mr Patel has a degree in Commerce and is a CPA, he has numerous years of post qualification experience holding senior Finance roles in listed multinational companies working both in Sydney and the United Kingdom. Mr Patel has overall responsibility for all financial aspects of the group and has a lead role in commercial decision-making across the business. He also coordinates the group's internal and external reporting requirements. Mr Patel is responsible for all dealings with the Australian Stock Exchange, Investors and Shareholders.

John Andrews - CSO

Dr Andrews has in excess of 20 years skilled practice in chemistry/biochemistry R&D, particularly separations science and protein chemistry, across the biomedical, agricultural and biotechnology industries. He has a BA (Honours-I-Chemistry) from Macquarie University and a PhD from the University of Sydney. Working under a range of regulatory environments (GMP/GLP/ISO), he has significant experience in areas of production, product/process development and analytical/process validation. He has managed research, process development and production teams, of varying sizes, at institutions such as Bond University, CSIRO, Biotech Australia and Gropep. His relationship with NuSep dates back to the late 90's when he served on the Scientific Advisory Committee of the Gels division of the then Gradipore.

Barry Holman – VP Sales and General Manager USA

Mr Barry Holman, VP Sales and General Manager USA, has over 20 years experience in biotechnology including establishing and building US based sales forces. Mr Holman joined the Company in 2008 as Vice President of Sales. In 2009 he was appointed to the position of General Manager – USA. He previously worked for both Life Therapeutics and Nabi Biopharmaceutical in various senior product and sales roles. At Nabi his tasks included building a sales force to sell novel therapeutics to the medical profession.

Conclusion

NuSep is trading on 1 times the current year projected profit, by comparison the PE for this sector is 15. The Company is now in a sales and profit growth phase. NuSep has created a solid consumables based business with significant upside as the MF10 consumables sales grow over the next few years.

In addition the Company expects to launch its SpermSep instrument this financial year. Sales of the SpermSep instrument could easily exceed the total sales of the rest of the business 2 – 3 years after its launch.

Contact Details

For more information about NuSep please visit the company's website www.nusep.com.

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