

Medical Devices – Buy When There is Blood in the Streets Searching for Value in a Beaten Down Sector

OVERVIEW

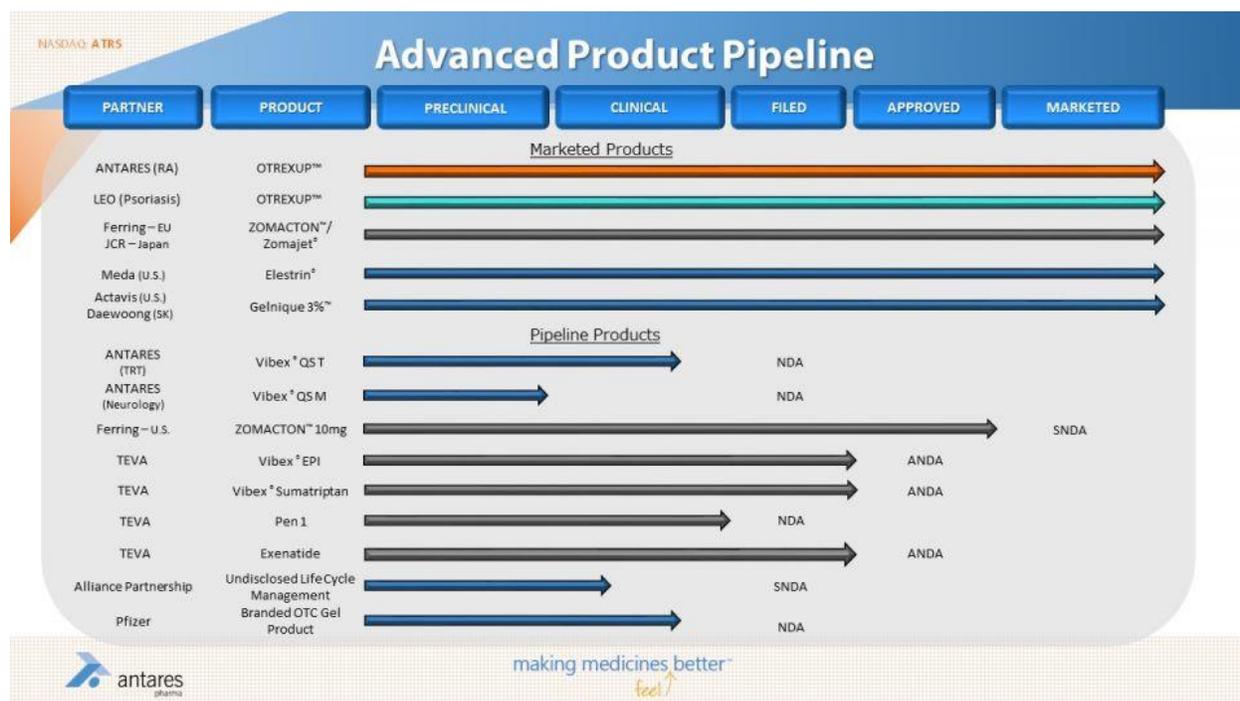
The title of this report is an adaptation of a quote attributed to Baron Rothschild in the 19th century. It is the ultimate expression of a contrarian investor's view of the world. Often the best purchases of stock occur at times of panic when sectors or markets are sold off significantly more than the change in the underlying fundamentals would dictate. This may be one of those times in the medical device sector and in this report, we will take a deeper look into three companies to whether they may be an attractive investments for investors. Antares Pharma, Inc., OraSure Technologies Inc., and TransEnterix Inc. are three companies in different phases of their development and serve different markets but they are all significantly off their 52 week highs and have significant growth opportunities in front of them.

ANTARES PHARMA, INC. (NASDAQ – ATRS)

COMPANY DESCRIPTION:

Antares Pharma is focused on the development of self-administered injectors ranging from single dose disposable auto injectors to disposable multi-use pen injectors to reusable needle-free injectors. The company is developing a several products which will utilize its proprietary platforms. Additionally, Antares is partnering with pharmaceutical companies such as Pfizer and Teva Pharmaceuticals to use Antares devices to deliver their therapies.

PRODUCT PIPELINE



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RECENT NEWS

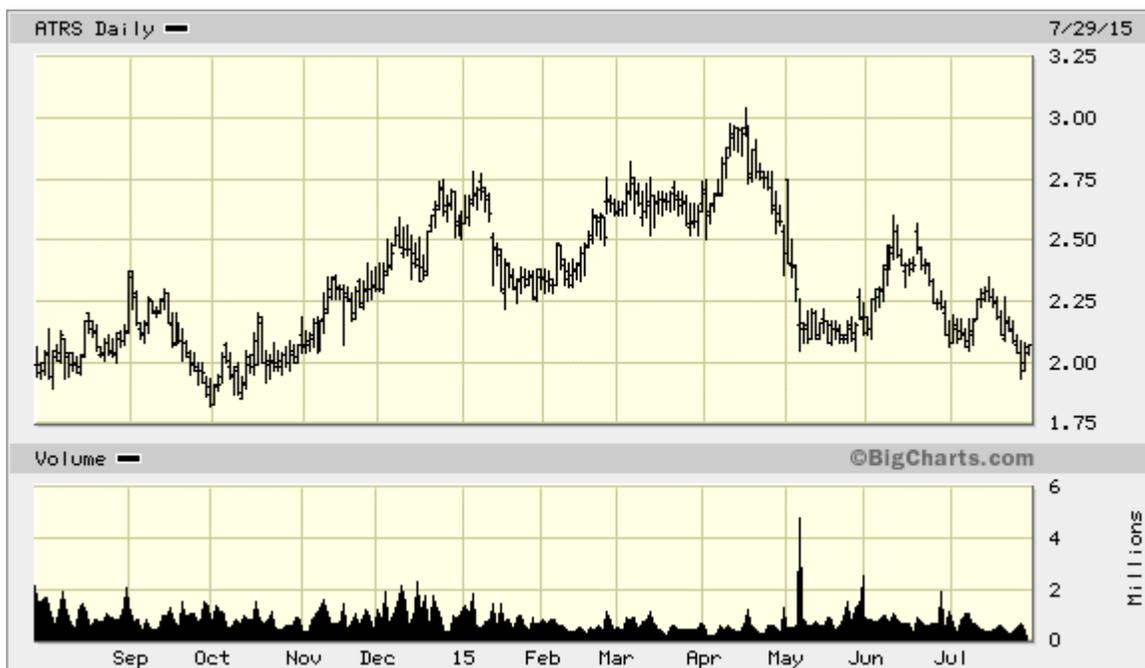
July 14 – The company appointed Peter Graham as SVP, General Counsel, Human Resources, Chief Compliance Officer and Corporate Secretary. Mr. Graham has a strong background in the healthcare industry with experience in contract negotiations, M&A, SEC reporting, compliance and general corporate matters.

June 1 – Antares received a written update from the FDA on its clinical development program for QuickShot Testosterone (QS T). The company believes that they will need to conduct an additional study of approximately 70 patients exposed to QS T for six months. Antares expects to initiate the trial in the third quarter of 2015 which may lead to a submission for approval of the product in the middle of 2016.

May 11 – The company completed an offering of 23,000,000 shares of common stock at \$2.00/share for net proceeds to the company of \$43.2 million which was lead by Piper Jaffray, Raymond James, and Oppenheimer.

May 11 – Reported operating results for the first quarter of 2015. The company lost 5 cents/share on revenues of \$8.3 million. The number of prescriptions rose to 6,722 from 496 in the year earlier quarter and the number of prescribers of OTREXUP was 1,546 versus 173 a year ago. The company ended the quarter with approximately \$26.5 million in cash and investments which will increase with the net proceeds of the stock offering discussed above.

STOCK PERFORMANCE



Source: Big Charts

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VERDICT

The shares of Antares are relatively expensive based on a multiple of ~10x trailing revenues. The company will need to show significant growth to justify that multiple. The company has an impressive pipeline that could drive that growth. The stock so far has held the \$2 level where they recently issued shares which is positive.

OraSure Technologies Inc. (NASDAQ – OSUR)

COMPANY DESCRIPTION:

OraSure Technologies is a leader in the development, manufacture, and distribution of easy to use diagnostic tests using oral fluids. Current products detect antibodies to the HIV virus, the HCV virus, and drugs of abuse. The company's products are sold to clinical laboratories, hospitals, clinics, community-based organizations and other public health organizations, research and academic institutions, distributors, government agencies, physicians' offices, and commercial and industrial entities. Their OTC products are sold in pharmacies throughout North and South America, Europe and Australia.

PRODUCTS

- OraQuick In-Home HIV Test
- OraQuick ADVANCE Rapid HIV-1/2 Antibody Test
- OraQuick HCV Rapid Antibody Test
- OraSure QuickFlu Rapid Flu A+B Test
- OraSure HIV-1 Oral Specimen Collection Device
- OraSure HIV-1 Western Blot Kit
- Intercept i2 Oral Fluid Collection Devices
- Intercept i2he Oral Fluid Collection Devices
- Intercept Oral Fluid Drug Test
- Q.E.D Saliva Alcohol Test
- OraSure Oral Specimen Collection Devices
- Histofreezer Portable Cryosurgical System
- OraSure Oral Specimen Collection Devices
- MICRO-PLATE EIA & AUTO-LYTE Technology
- Pointts Clinic and Scholl Freeze

RECENT NEWS

July 7 – DNA Genotek Inc., a subsidiary of OraSure, received CE-IVD marking for its OMNIgene GUT microbiome collection kit. The kit is designed to enable an individual to easily self-collect high quality microbial DNA from feces/stool for gut microbiome profiling for use in clinical laboratory and research use settings.

June 12 – OraSure was awarded a 3 year, \$10.4 million HHS contract to advance rapid Ebola test development. The test utilized the company's OraQuick platform used in their rapid HIV and HCV test

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kits. The contract is structured as an initial \$1.8 million commitment and options to add an additional \$8.6 million to fund certain clinical and regulatory activities.

May 6 – OraSure reported first quarter 2015 results including revenues of \$27.1 million which was a 15% increase over the year ago quarter. The company broke even for the quarter versus a loss of 10 cents/share for Q1 2014. They ended the quarter with \$89.5 million in cash and short term investments.

STOCK PERFORMANCE



Source: Big Charts

VERDICT

OraSure has been steadily growing revenues for several years and trades at ~2.6x trailing revenues. The company is basically operating near breakeven and could become profitable if they are able to keep growing revenue. The shares appear attractively priced at current levels and the company could be an attractive M&A target for another diagnostic test supplier.

TransEnterix Inc. (NYSE – TRXC)

COMPANY DESCRIPTION:

TransEnterix is developing a patient-side robotic system called the SurgiBot System. SurgiBot is controlled directly by the surgeon, with enhanced vision and robotic motion designed to improve patient outcomes.

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RECENT NEWS

June 11 – Priced an offering of 18.74 million shares of common stock at a price of \$3.00/share for net proceeds of approximately \$52 million.

June 1 – TransEnterix submitted its 510(k) application with the U.S. FDA for the company's SurgiBot System. This submission and ultimate decision by the FDA will likely be the binary event that will determine the success or failure of TRXC as a stock.

May 6 – The company reported results for the first quarter of 2015. Since their products have not been approved by the regulatory agencies, there are no revenues yet. They ended the quarter with \$28.4 million in cash and equivalents which will be supplemented by the \$52 million they raised through the stock offering discussed above.

STOCK PERFORMANCE



Source: Big Charts

VERDICT

TransEnterix is a high risk stock due to the binary nature of the FDA decision process. If the company is successful in getting approval of the SurgiBot System, the stock could easily double. Conversely, if there is a delay or rejection, the stock could trade below \$1 (current book value). The stock is really only suitable for the most risk tolerant of investors who are willing to endure such high volatility.

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RISK FACTORS:

An investment in the common stock of a company is subject to a number of risks. A detailed list of the risk factors which may affect the company's fundamentals may be found in its most recent form 10-K located on the SEC's website, www.sec.gov. Investors should carefully consider these risk before making an investment decision. We assume no obligation to update or revise any such forward-looking statements to reflect events or circumstances that occur after such statements are made.

SOURCES:

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Disclosure: I, Michael McCord, CFA have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I have no business relationship with any company whose stock is mentioned in the article.

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