

Seeking healthy results for all

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From: [The Australian](#) October 13, 2012 12:00AM

AUSTRALIA'S corporate backyard is littered with the corpses of businesses that have tried to expand their operations overseas and failed. From real estate investment trusts to industrial companies such as Paperlinx, time and time again we have watched as either a proven recipe for selling widgets fails or as directors -- full of their own hot air -- make overpriced acquisitions that end with billion-dollar writedowns.

One sector that has had more success than others in breeding global franchises is healthcare.

When companies such as CSL, Cochlear, Ramsay Health Care and Ansell have one-year total shareholder returns of 66.3 per cent, 27 per cent, 34.7 per cent and 21.6 per cent respectively, it seems that if you catch a cold overseas, it might be an Australian company that provides the hanky.

Understandably, we have a healthy interest in many of the businesses that make up the sector.

One of those businesses we hold at Montgomery Investment Management is a business we feel has the potential to follow in the footsteps of Australia's healthcare success stories. Sirtex Medical (SRX) is an Australia-based oncology healthcare company that researches, manufactures (in US, Australia and Singapore) and sells small-particle liver cancer treatment called SIR-Spheres.

Great hopes are held for the future of the 800,000 patients diagnosed globally with liver cancer each year. The spheres (one-third the diameter of a strand of hair) can be delivered directly to the affected site. And because the microspheres are charged with Yttrium-90 (an isotope), SIR-Spheres are capable of delivering a high dose of localised radiation -- about 40 times the strength of current radiotherapy techniques -- directly to any liver tumours.

The clear benefit is the patient does not suffer side-effects associated with other treatments. For example, beamed radiation applied from outside the body passes through other layers of tissue and organs, damaging healthy cells.

Currently, the treatment is applied only to extend life expectancy and improve patients' lives in their final 12 months. Sirtex is currently selling 5000 doses, representing a 10 per cent share of treatments.

Naturally, the rewards of this investment going well are not only financial.

SIR-Spheres have gained traction as a form of treatment and wider use by oncologists only recently, and 30 years after their development. There have been years of proving up the treatment in the salvage setting (basically when chemotherapy fails). These phase II trials are said to be showing clinically significant outcomes.

A large scale, phase III, trial is under way and filling up fast and Sirtex hopes that its \$65 million investment in the trial will prove that SIR-Spheres can be used in conjunction with chemotherapy as a first-line, gold-standard treatment. We hope it will deliver vastly improved outcomes for patients.

This, of course, has not escaped the attention of investors. A one-year total shareholder return of 114.9 per cent has dwarfed the returns mentioned earlier. With 33 consecutive quarters of growth, the business has strong tailwinds behind it.

We believe a step-change in the business will occur if the treatment's use is moved up the treatment curve into a first-line setting following positive clinical tests from multiple oncologists, surgeries and patients.

These tests need to show that, in conjunction with chemotherapy, lives can not only be improved dramatically via a minimally invasive medical procedure but cancerous liver tumours are shrunk to a size that enables them to be surgically removed or managed better than current treatments, thus dramatically increasing life expectancy.

If the phase III trial is successful (expect published results in 2014-15) the number of patients that can be treated will grow by a factor of 10-15 times. It doesn't take a mathematician to work out that on current dose sales, at \$15,000 per dose, the company has captured less than 1 per cent of a much bigger market that will drive business growth for many, many years.

While we appreciate that the shares are no longer a bargain, we believe that our investment in SRX is fairly valued based on continued uptake in salvage settings and an investment with a free option on the outcome of their phase III trial.

Sirtex has the potential to become one of the handful of Australian export hall-of-famers and, for the benefit of the many living with liver cancer, we hope the investment is also one of our most successful.

Roger Montgomery is the founder of Montgomery Investment Management and the author of [Value.able: How to Value the Best Stocks and Buy Them for Less Than They're Worth](http://www.rogermontgomery.com), available at www.rogermontgomery.com.