

Small but mighty: The ASX health small caps aiming to beat the government in the innovation game

Health & Biotech

03/06/20 | [Nick Sundich](#)

Almost all of the ASX's health small caps have visions as ambitious as the Australian and state governments' broader health objectives for society as a whole.

The combined market caps of all ASX health companies under \$500m is approximately \$9bn.

Until small caps generate enough revenues to be self-sustaining, they have to rely on investor dollars to support their vision and hope everything goes according to plan.

In contrast, governments appear more powerful, spending big on healthcare.

Australia's federal government spends over 10 per cent of Australia's GDP on healthcare. The most recent concrete figure for a fiscal year was 2017-18, when it spent \$185.4bn, which equates to \$7,485 per person.

Yet both the government and small caps are recognising healthcare needs to fundamentally change if it is to solve several problems that already exist or anticipated to emerge.

Examples include the ageing population, cybersecurity with respect to health records and rising health costs.

Small caps believe they can play a part in tackling these issues, and some even think they can do it better than the government.

Private sector thinks longer term

Global Health (ASX:GLH) is one small cap that wants to improve healthcare outcomes better than the government, particularly for its own clients.

The company has four different software-as-a-service (SaaS) platforms. One of these, Lifecard, is a personal health record that aims to rival the government's My Health Record.

CEO Mathew Cherian believes there are several reasons why small caps, and the private sector more broadly, can be more effective.

"I certainly think innovation is better done by the private sector," he told *Stockhead*.

"I think the public sector out of necessity has to move much slower than they're able to. The funding of a [government] agency is a year-to-year proposition, so can't think beyond a couple of years. That's a reason why it'll be stuck.

“I think the private sector can respond much quicker to change.

“My Health Record is already feeling like it needs to be rewritten – that’s the view of the specialists I’ve come across, that it needs to be fixed.”

Where small caps are superior than the government

LifeCard has a **heavy focus on privacy**, allowing patients to retain control of their data. It is geared towards patients with chronic or lifelong conditions needing ongoing management such as diabetes and asthma.

While Cherian does not believe Lifecard will replace My Health Record, he thinks it is better at caring for individual patients and is more private.

“Data is owned by us as consumers, it allows us the right to give people access to it and we decide how much access we give,” he said.

“The idea is I start taking control of my life, of my health and the carers are just people that help me improve and maintain my condition.

“My Health Record is really about analysing the costs and demographics. And close to half a million providers can have access to my records unless I deliberately say I don’t want them to and most people don’t do that.

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COVID-19-led explosion in demand

But this is not just talk, Global Health has seen a rapid increase in demand since COVID-19 broke out.

“We have just been amazed. I don’t think [demand] has ever been higher,” Cherian said.

“We thought the disruption in health — more telehealth and less face to face — would occur in a five to seven year timeframe, but it’s looking like five to seven months now.

“It’s a positive that COVID has forced us to rapidly change a system that’s stuck in the last century. Healthcare is information intensive, and needs to be very defensive because people can lose their lives.

“So it’s just accelerating the pace of disruption in health and companies like us have been seeing phenomenal demand.”

But ultimately they can’t live without governments

While some small caps may be building better products, they cannot do it without the government. At the very least, government-appointed regulators need to sign off on companies’ products before they can market them.

Yet the role of the government sometimes goes beyond just being a regulator. **Some of last year’s best performing ASX health stocks surged with government help.**

For instance **Painchek's (ASX:PCK) run commenced when the Morrison government invested \$5m to sponsor a clinical trial of its software.**

In a similar way **Alcidion's (ASX:ALC) rise was triggered by Britain's NHS turning to companies like them to bring their healthcare system into the digital age.**

One of 2020's success stories, recently listed **InteliCare (ASX:ICR)** received a helping hand from the WA government by being one of its clients.

Hours before listing, **the company revealed Western Australia's Department of Communities Justice Services was signing on full time after a successful trial of its software.**

InteliCare boss Jason Waller told Stockhead last week platforms like Intelicare's would become the "new norm".

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