

VeriChip Launches IPO

Although the provider of human-implantable RFID chips scaled back the size of its IPO, demand for the company's stock seemed fairly strong, with more than 2 million shares trading hands.

By Claire Swedberg

Feb. 9, 2007—Applied Digital launched the initial public offering (IPO) of its VeriChip division today with a lower-than-expected number of shares: 3.1 million at \$6.50 per share—a sharp reduction from its intended 4.3 million shares and at the bottom end of its planned minimum price of \$6.50 to \$8.50 per share. Trading was moderate (2.2 millions shares traded hands) for the stock offering, which was underwritten by Merriman Curhan Ford, C.E. Unterberg, Towbin and Kaufman Bros.

The stock traded for as much as \$6.99 and as little as \$6.16, closing at \$6.50. Thus, it fared much better than many other stocks trading on NASDAQ market, as reflected by the 1.16 percent drop in the NASDAQ Composite Index.

VeriChip's decision to pare down its IPO isn't necessarily bad news, says Frances Gaskins, president of IPOdesktop, a research firm located in Los Angeles. "At least they're getting it done," he says. Although a reduced number of shares and lower initial price made the offering less attractive, it doesn't mean they can't be successful," he says. "It's a good time for them to go public," he says, referring to a week in which other IPO trading has been heavy. Now that the company has gone public, he adds, "they have a chance now to prove their concept."

In filings with the U.S. Securities and Exchange Commission (SEC), the company reports that a majority of its revenue is derived from sales of its infant-protection systems, which help to prevent mother-baby mismatching and infant abduction, as well as its wander-prevention systems, which facilitate the protection and location of residents in nursing homes and assisted-living facilities. Those systems utilize RFID tags embedded in bracelets to track the whereabouts of individuals.

VeriChip says it believes the global market for infant-protection products is currently growing at approximately 10 to 15 percent annually, although it still considers the market relatively mature. The company claims that approximately 1,100 U.S. hospitals and birthing centers use its infant-protection systems, and that growth opportunities exist among the remaining facilities that have yet to put the systems in place, as well as through the replacement of legacy systems.

In addition, VeriChip estimates that within the United States, RFID-type wander-prevention systems are presently installed in approximately 30 percent of the more than 52,000 U.S. nursing homes and assisted-living facilities. The aging of the U.S. population, it says, combined with the increased prevalence of Alzheimer's disease, is causing nursing homes and assisted living facilities to place increased emphasis on wander-prevention systems.

VeriChip, however, is probably best known for its VeriMed system, which consists of an implantable passive RFID tag the size of a rice grain, which can be injected into a patient's arm. Each tag's unique 16-digit

identifying number can be read by hospitals or medical staff carrying a handheld reader and links that patient to medical record details such as allergies, medications being taken and blood type. The VeriMed system is the only human-implantable radio frequency transponder system cleared by the U.S. Food and Drug Administration (FDA) for use for patient identification and health information purposes.

To date, the company has generated little revenue from sales of its VeriMed system. According to documents filed with the SEC, VeriChip's revenue from the implant was less than \$100,000. Thus far, the company claims to have approximately 1,200 doctors registered in its VeriMed physician network, all of whom have agreed to make the VeriMed system available to their patients. As of December 31, 2006, VeriChip says, 392 hospitals and other medical facilities have agreed to adopt the VeriMed system in their emergency rooms, though only 222 patients have actually been implanted with the chip to date.

VeriChip has shown greater expenses than profits in the past year. The company's gross profits for the first nine months of 2006 were \$11,850,000, while the selling, general and administrative expense (SG&A) for the same time period was \$12,580,000. "They're treading water in the SG&A," Gaskins says. The fact that the SG&A is slightly higher than the gross profit makes stock investment less desirable. "If they can get the profit above the SG&A, they could be quite profitable."

Among other companies launching IPOs, VeriChip stands out as an emerging company, smaller in size than most others. What's more, Gaskins adds, "the other ones typically have strong income statements."

"This is a classic emerging company that is hoping it continues to emerge," Gaskins explains. "It will be interesting to see the December quarter report. I think everyone will be looking at that closely."

Midsize IPOs can get lost in the larger IPO offerings taking place, according to David Menlow, president of independent research provider IPO Financial Network. "These mid-range offerings are not what investors are looking at these days," he says, adding, "The revenue curve is what is promising for this company, but people today are looking for more than a promise. What you can see here is that losses are not diminishing on a meaningful basis."

"It could use another year in the oven," Menlow says. However, the company may not have that year to wait. Thus far, VeriChip has received a series of loans from its parent company, Applied Digital, whose Digital Angel subsidiary sells similar RFID devices to be implanted in pets or livestock.

RELATED_ARTICLES Of the money it gained from its IPO, VeriChip says it will now apply \$7 million toward repayment of its debt to Applied Digital, according to the SEC filings. The firm intends to invest between \$8 million and \$10 million toward further developing VeriChip, primarily through increased sales and marketing over the next two years. In June 2006, Horizon Blue Cross Blue Shield of New Jersey initiated a two-year clinical trial to test the use VeriMed system (see Insurer Running VeriChip Trial). This trial involved using VeriChip's implantable tags to access the medical records of chronically ill patients.

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