

This post is excerpted from a letter by MOI Global instructor Jim Roumell, partner and portfolio manager of [Roumell Asset Management](#), based in Chevy Chase, Maryland.

Jim [discussed Enzo Biochem](#) in his talk at Best Ideas 2019.

ENZ is a debt-free company possessing a strategically located clinical lab footprint (NY Tri-State area) in a consolidating industry. Moreover, the company has significant IP assets, a therapeutics business we expect to be monetized in the first half of 2019, and considerable IP litigation optionality. ENZ's market cap is roughly \$160 million and it has \$53 million in cash, which equates to an Enterprise Value of \$107 million.

The company has won settlements/royalty payments of \$100 million (\$67 million net) over the past several years, highlighting its rich IP assets. ENZ's current enterprise value is roughly 110% of what the company has collected in IP litigation. The company has seven outstanding IP suits, six of which are financed on a contingency basis with the law firm that has already won ENZ suits against Illumina, Thermo Fisher Scientific and Siemens.

ENZ has multiple shots on goal, i.e., ways to win. The company's share price has dropped from over \$10 two years ago to its current sub-\$3/share price because of dramatically reduced reimbursement payments (Medicare and private pay insurers) for its clinical lab services business.

While there is near-term pain associated with the reimbursement issue effecting ENZ's lab business, it is ultimately well positioned to be a winner with its low-cost Ampiprobe diagnostic panels that the company believes possess a 60% gross margin given that it's integrating its own IP. We believe smaller, independent labs are being particularly squeezed by reimbursement payments and that ENZ offers an outsourced diagnostic solution.

On December 19th, we received indication that the litigation component of our investment thesis appears to be materializing when Enzo and Roche issued the following statement to the Honorable Denise L. Cote of the Southern District of New York; "Following up on the parties' call to chambers yesterday, the parties are pleased to report that they have reached an agreement in principle to resolve the above-captioned matter. The parties are currently finalizing the agreement and related stipulation of dismissal and endeavoring to have those completed shortly after the new year," further stipulating that a settlement would be reached by January 25, 2019. On January 24th, the parties made a request for a two-week extension to file settlement terms. Until then, we wait.

Disclosure: The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. The top three securities purchased in the quarter are based on the largest absolute dollar purchases made in the quarter.

