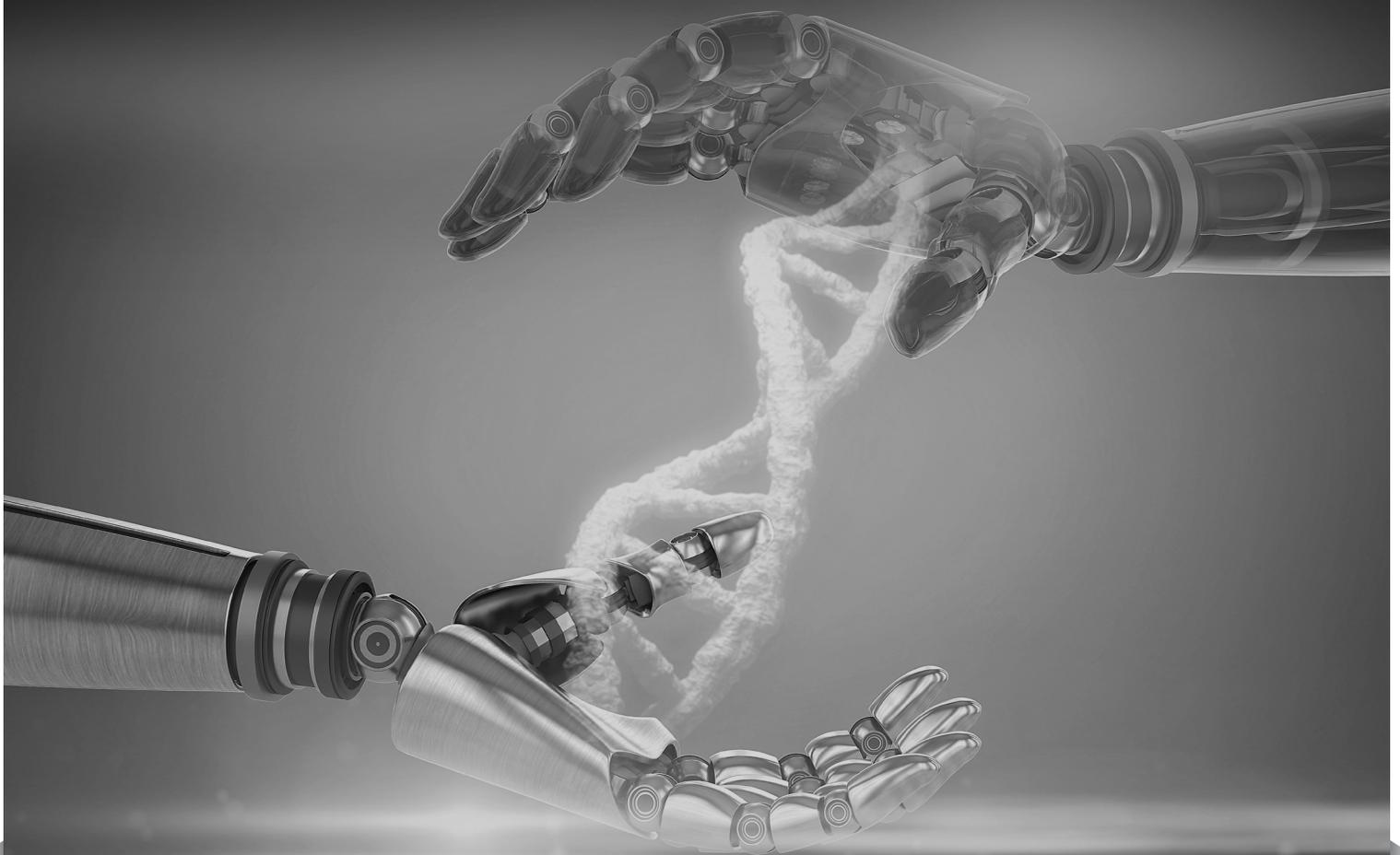




# Emerging Stocks Down Under

🗨️ *Those who cannot remember the past are condemned to repeat it.* 🗨️

- George Santayana (1863 - 1952), Spanish philosopher



## **DROPSUITE**

The final countdown to profitability

## **PURIFLOH**

Technology helping investors clean up

## **CARBONXT**

Activated carbon, active growth

# DROPSUITE

The final countdown to profitability

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Stocks Down Under rating: ★★☆☆

**ASX: DSE**  
**Market cap: A\$99M**

**52-week range: A\$0.052 / A\$0.225**  
**Share price: A\$0.185**

Headquartered in West Perth is a company built around the preservation of data, the 'modern oil.' Dropsuite's business provides easy-to-use backup services to an organisation's email, databases and websites. Dropsuite is there to provide an extra layer of insurance against the unthinkable, total information loss. The company has provided shareholders with strong returns since things started to kick-off on 5 October 2020. With shareholders already enjoying 140% profits, has this suite already been booked?

[READ MORE](#)

# PURIFLOH

Technology helping investors clean up

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Stocks Down Under rating: ★★☆☆

**ASX: P03**  
**Market cap: A\$43.5M**

**52-week range: A\$0.92 / A\$4.09**  
**Share price: A\$1.45**

It's been a while coming, but Purifloh, which is developing air and water purification technology, is now almost ready for the big time. The recent appointment of Dr. Alex Sava as Technical Director is significant. Sava was a co-inventor of the technology behind Nanosonics, the infection prevention company, which today is a billion-dollar company on ASX.

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When Carbonxt went public on ASX in January 2018, it raised \$10m at 70 cents per share at a pre-money valuation of \$41m. Investors liked the prospects of this maker of activated carbon, whose product enjoyed strong demand for environmental management. Three years later Carbonxt stock consistently languishes below 20 cents, even though revenue has grown and the company has generally executed well. We think this company's shareholders are headed for better days, though.

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## Share price chart



Source: Tradingview

## Safeguarding the new oil

Have you ever accidentally dropped your phone in the water, causing all of your data to be lost? The loss of your photos, contacts and other information might be upsetting, even devastating to you personally. Now imagine if the equivalent happened to a business, specifically if its entire website and email infrastructure got lost somehow, maybe by accident or through a malicious act such as a hack of the system. The loss of this sort of data could cause a previously solid company to go bankrupt overnight.

We hear you thinking, what about our Cloud backups? Yes, those are useful in case of accidental data loss. However, a Cloud backup is pretty much useless if the entire system is hacked or held at ransom. Ransomware is a type of malware that encrypts all data upon infecting a system. The hacker will then demand a fee for the 'privilege' of decrypting the data they captured. Even if the ransom is paid, there is still no guarantee you will ever recover your files. Bitdefender's Mid-Year Threat Landscape Report for 2020 found the company had detected 715% more ransomware attacks year-over-year. With these types of attacks becoming ever easier, this trend is certainly not going to reverse anytime soon.

## Dropping some knowledge

What makes Dropsuite so unique? This is a company in an important, but not competition-free field. With other options out there, why should companies sign up with Dropsuite? To answer this question, we will go over the company's three main products: email backup, email archiving and website backup. The email backup product is called, well, Dropsuite Email Back-up. A rather straightforward name for a straightforward product. This product's main use is an extra layer of protection against ransomware and other damaging hacking operations. However, this product can also be used to protect against 'irate or clumsy employees or systems issues.' The product can backup G Suite Gmail, Exchange Online, Hosted Exchange, IMAP/POP and Open-Xchange with limited setup.

Dropsuite Email Archiving is significantly more than a historical database creator. Everything from your email database is stored and catalogued, including emails, attachments, calendar, tasks, etc. Why would a company want this sort of backup of its historical records? Mainly in case of legal issues or in case information is required by a regulator. The database created is fully searchable, while also allowing for analysis reports to be created looking at everything from usage patterns to behaviour examination. It can also be used to scan for policy violations. All of this and more can be achieved through the Dropsuite's platform, without storage limitations or retention periods.

In today's online world, a business can be made or broken by its website and for this reason, creating one is often not cheap. With all the work, planning, time and resources that go into the creation of a company's website, it should not be all that surprising that Dropsuite has created a website backup product. This Cloud-based backup and monitoring service is easily integrated into cPanel, Whmos, Atomia, Plesk and Hostbill, the most popular website control panels. However, this product is more than just a backup product; this service also constantly monitors your website to make sure Google does not blacklist it. If that happens, the website administrator is notified. If your website becomes infected or destroyed, with Dropsuite, you can easily fix things with its one-click restore feature.

So, what makes Dropsuite unique? For the purpose of both shareholders and clients, it's the company's niche suite of products. As companies continue to be assaulted by data failures, natural disasters, ransomware, etc. we believe Dropsuite's products offer a strong value add that cannot be ignored.

## All metrics are on the rise

Dropsuite is not yet profitable. However, 2020 was a strong year for the company as it reduced its EBITDA loss from \$3.1m in 2019 to \$2.1m in 2020. The company managed to reduce its EBITDA loss mainly off the back of a 49% year-over-year increase in revenue to \$7m. However, total expenses (excluding depreciation and amortisation) increased 17% year-over-year to \$9.3m. These expenses will remain, but the 17% growth for employee and director expenses and 46% for hosting fees is unlikely to repeat itself at that scale this year. Combine this with the 1HY21's 50% increase in end users to 472k, 35% increase in reseller partners to 335 and a partner churn rate of just 3%, and we believe the market's prediction of EBITDA profitability during 2022 (Dropsuite operates on a calendar financial year) is well within Dropsuite's grasp.

Dropsuite is currently trading at a 5.7x and 3.8x EV/Revenue ratio for FY22 and FY23, respectively. From an EV/EBITDA perspective, Dropsuite is valued at 73.9x and 21.4x for both years. These valuations might seem high. However, when you look at the historical earnings we mentioned above and the current predictions, it makes a lot of sense. Revenue growth is expected to slow down slightly to an average of 40% annually, but remember, it's all about the EBITDA profitability. Following FY21's expected EBITDA loss, FY22 is expected to produce the company's first EBITDA profit at \$1.3m followed by strong growth of 246% to \$4.5m in FY23.

As with any company finally reaching profitability, many things could go wrong and derail this train. However, we believe that Dropsuite has a product that is not only innovative in its industry, but has a strong use case, especially after the rude awakening companies have had over the last 18 months when it comes to the risk of cyberattacks. Four stars.

# PURIFLOH

Technology helping investors clean up

Stocks Down Under rating: ★★★★★

ASX: P03

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## Share price chart



Source: Tradingview

Back in 2014, an almost-bust ASX-listed company called Water Resources Group was recapitalised to commercialise a new way to purify air and water. What it was seeking was a small and inexpensive device that would deal with the contaminants in water or air. Seven years later, the company, called Purifloh since mid-2018, is close to achieving its goal.

## Radical ideas

Purifloh's technology is called FRG, short for 'Free Radical Generation', and it works its purification magic through 'cold plasma'. 'Plasma' is ionised gas, that is, gas where the constituent molecules have a net electrical charge. The reason your old plasma TV from 15 years ago had such a sharp image was because of the plasma inside the display panel. A 'free radical' is a molecule with unpaired electrons. Free radicals can be highly damaging to cells and while that's bad in the human body and the reason people take antioxidants, it's great if you want to kill bugs in water or air.

Purifloh's technology creates plasma inside a graphite tube by pulsing high voltage electricity through electrodes. Put that tube in ambient air and you get a free radical you've most certainly heard of, called ozone, which is just three oxygen molecules together, chemical symbol O<sub>3</sub>. Put the tube in moist air and instead of ozone, you get hydroxyl radicals, where a single oxygen is bonded to a hydrogen, chemical symbol -OH. The

hydroxyl radicals are what Purifloh wants, because they are safer than ozone and can neutralise chemical contaminants (such as Volatile Organic Compounds) as well as biological matter. Ozone and the hydroxyl radicals are both examples of so-called 'Reactive Oxygen Species' where the oxygen-containing ions have unpaired electrons.

## **An idea whose time has come**

For over a century science has known that Reactive Oxygen Species are great for purification and sterilisation applications. The trouble has been making the stuff from ambient air, with most marketed ionisation technologies requiring pre-dried material that needs to be enriched with oxygen gas in a cumbersome, multi-stage process. FRG makes it all simple, instantly treating ambient air of any humidity using a tiny amount of energy in a mobile-phone size device. Free radicals only exist for a very short period of time before they are neutralised, so you can't make them and store them for later use. You need to create them in situ. Purifloh provides this solution, chemical-free. No chlorine. No hydrogen peroxide, no corrosion, just harmless cold plasma that leaves no residue.

An industrial research company, called Somnio Global, originally developed FRG in the US city of Detroit. Purifloh took an exclusive license in 2014, but Somnio continued to do the heavy lifting on development. The Michigan connection proved important in late 2018 when Bill Parfet invested. Bill Parfet is one of the Parfets who built Upjohn out of another Michigan city called Kalamazoo before Pharmacia acquired that drug company in 1995.

When Parfet heard about what Somnio had achieved with FRG, he took a A\$9.6m placement in Purifloh at \$2.40 per share. That was way above the share price at the time, but it was the easiest way for him to get set, given the tightness of the Purifloh register. More important, it was a big vote of confidence in the FRG technology. He hasn't sold yet.

## **Nanosonics Mark 2?**

By the time Covid-19 arrived, Purifloh was able to make and validate FRG devices for evaluation by potential OEM partners. Covid, however, made it difficult to work on an OEM strategy. Purifloh consequently pivoted to a B2B product and service solution model, reasoning that this strategy would make it easier to get products into the marketplace. The new strategy will see a whole-of-room air purifier launched commercially later this year. Around the same time, prototypes of water purification and surface cleaning devices should become available. The pandemic we have been going through has highlighted the importance of air purification tools, hence Purifloh's prioritisation of its offering (and, yes, Purifloh believes FRG can kill Covid) But the big upside is in water purification where alternatives to the usual chemical-based solutions are likely to be welcomed in what is a global market opportunity in the hundreds of billions.

The April 2021 appointment of Dr. Alex Sava as Purifloh's Technical Director suggests a lot of upside for a company at this stage of its development. Dr. Sava previously developed the key intellectual property behind Nanosonics' Trophon device for sterilising medical instruments. Instead of soaking instruments in baths, then rinsing and drying, the Nanosonics process uses a fine mist of hydrogen peroxide. At the end of the process, a tiny amount of that chemical is broken down into oxygen and water. That elegant, inherently safe and residue-less technology, as well as the thoroughness of disinfection, helped to promote uptake in hospitals. Nanosonics has grown into a billion-dollar company in the years since Trophon first went live. Combining FRG's capabilities with Dr. Sava's passion for similarly elegant cleaning and disinfection solutions, we see potential for Purifloh to ultimately enjoy the same kind of re-rate ahead of the launch of the air purifier device later this year. Purifloh is four stars for us.

# CARBONXT

Activated carbon, active growth

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## Share price chart



Source: Tradingview

If you were looking for a great foundation product for a new cleantech company, you couldn't do much better than MATS-PAC, from Carbonxt, a company listed on ASX, but based in Gainesville, Florida. In the early 2000s, Carbonxt had set out to develop a better kind of 'activated' carbon, i.e. carbon engineered with a lot of micropores to give it a large surface area. Activated carbon, usually made out of charcoal, is routinely used in all sorts of industries to soak up pollutants. MATS-PAC was an activated carbon specifically designed to pull mercury out of flue gas and wastewater emitted by coal-fired power plants.

## Thank you, EPA

The name MATS-PAC came from the fact that the product was a Powered Activated Carbon that could help those plants comply with the Mercury Air Toxic Standards promulgated in 2012 by America's Environmental Protection Agency (EPA). The EPA rule was that the plants had to cut their mercury emissions, which as we all know, is a health hazard, by 90% within four years. Any activated carbon that could capture mercury was fit for purpose. However, Carbonxt was the only supplier of such activated carbon that was also free of bromine, a halogen known to be corrosive to power stations' plant and equipment. That made for revenue of A\$3.8m for Carbonxt in FY17 and the prospect of bigger numbers to come. And better margins to come once the company took manufacturing in-house, something it did in 2018 in a facility in the US state of Georgia

nicknamed 'Black Birch.'

Carbonxt didn't intend to rest on its laurels with MATS-PAC. It had also developed a pelleted activated carbon product to go after the big money that was dominated by large and established companies, like America's Cabot (NYSE: CBT) and Japan's Kuraray (TYO: 3405). Most applications of activated carbon, such as in water treatment or in cement plants, involve pellets rather than powder. By 2018 Carbonxt was one of a few suppliers actually making its pellets in the United States, from a plant near Minneapolis. The early customers liked what they saw and Carbonxt enjoyed A\$9m in revenues in its first year in the pellet business. Particularly exciting was a pellet Carbonxt had developed suitable for use with ReACT, that is, Regenerative Activated Coke Technology. ReACT allows power stations to scrub mercury and two other bad guys, Nitrogen Oxides (NOx) and Sulphur Oxides (SOx). By 2018 Carbonxt was supplying ReACT-ready plants.

### **Sub-optimal, but rapidly headed towards optimal**

The combination of powdered and pelleted activated carbon products helped Carbonxt grow revenue to A\$18.3m by FY19. However, by that stage Carbonxt stock was only about half the 2018 IPO price, because Carbonxt's business was still sub-optimal. Gross margins were only about 20% due to low plant utilisation and that 20% was before shipping costs. The company still had about \$6m in annual overhead costs. Basically, it was going to take a couple more years of growth for Carbonxt to become sustainable and FY20 wasn't a growth year because of the havoc of Covid-19 and delays in closing a few contracts.

You'll recall that energy consumption dropped markedly a year ago as Covid-19 temporarily shut down the global economy. That was bad for a business supplying power stations. Interestingly, FY20 wasn't too bad in the end, with Carbonxt still enjoying \$15.8m in revenue. And the EBITDA loss for the year was only \$1.3m thanks to gross margins before shipping costs going above 30%.

FY21 is turning out to be a whole lot better, with business conditions returning to normal. Powered activated carbon tends to be a slow and steady game, but the upside in pellets is strong because there are so many applications they can be used in, from natural gas solvent recovery to landfill to heavy manufacturing.

### **An innovative company**

Importantly, Carbonxt has continued to innovate in the pellet space, with a product developed in 2020 that can help pull phosphate out of liquid streams. The company is also pelletising for its competitors and in the plants it is increasing the number of materials it can make itself, so it expects margins to continue to increase. And in February 2021, Carbonxt announced that it was building another pellet plant, this time in Kentucky. The only trouble for Carbonxt right now is that it has chosen to defer lower-margin sales until Kentucky gets up and running, because Kentucky will give Carbonxt more control over its costs. So FY21 might not look so good when the numbers come out, but FY22 is likely to be a lot better.

Carbonxt has continued to burn cash as it gets ready to go to the next stage. It raised \$3m at 16 cents a share in a November 2020 placement and it just raised \$2m at 15 cents. However, there's a good chance the next capital raising may be the last given the likely growth in the business. For investors that can see through the share price weakness of the last few months and appreciate the medium-term growth prospects, Carbonxt is four stars.

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