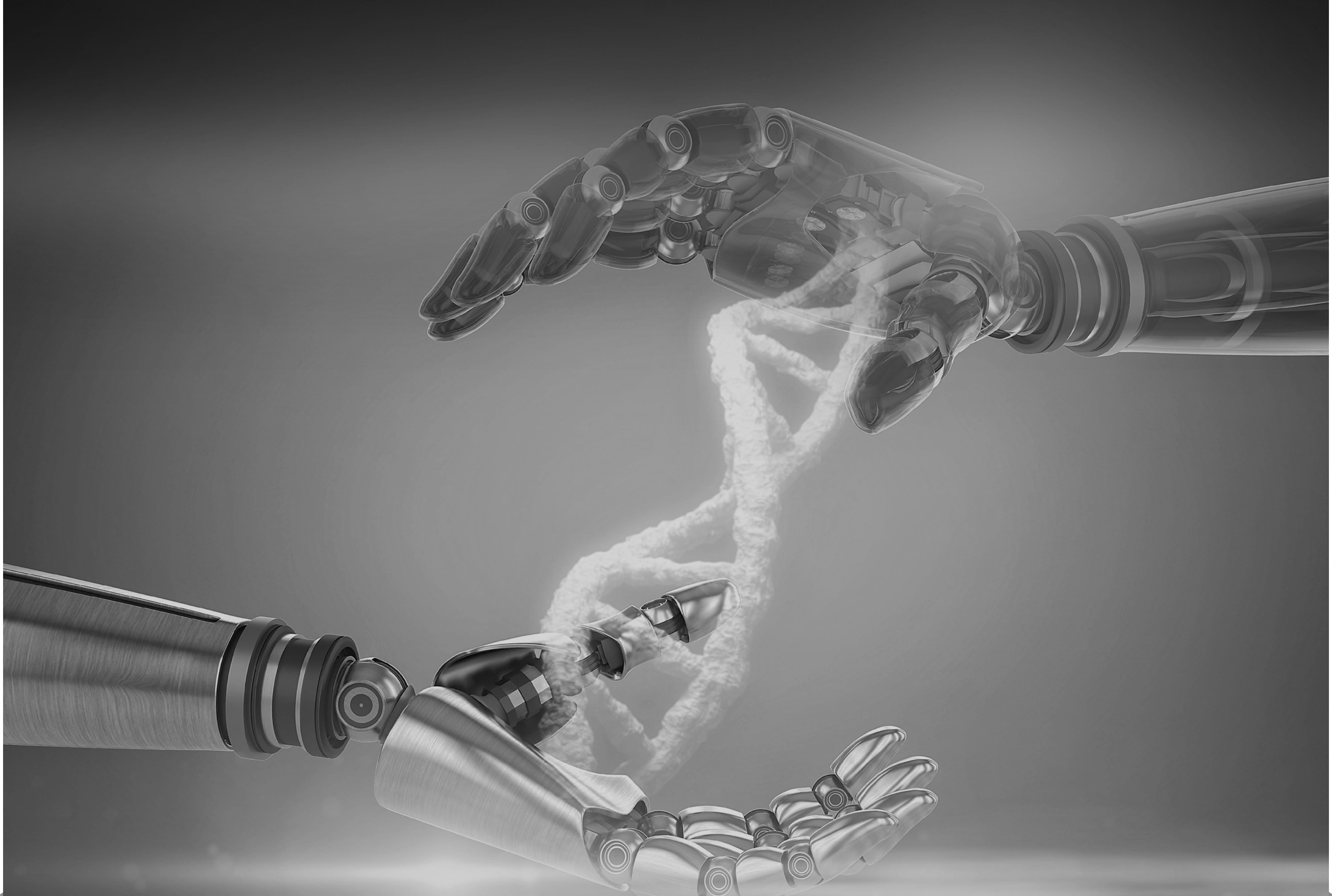
STOCKS DOWN UNDER

8 JUNE 2021

Emerging Stocks Down Under

"Advancement only comes with habitually doing more than you are asked."

- Gary Ryan (b. 1969), English composer and musician



BARD1 LIFE SCIENCES

Early detection is key

RIGHTCROWD

Not our crowd

IODM LTD

One hefty valuation

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Early detection is key

Stocks Down Under rating: ★★

ASX: BD1
Market cap: A$ 157M

52-week range: A$0.57 / A$5.60
Share price: A$ 1.89

Melbourne-based Bard1 Life Sciences aims to fill the void in early cancer detection through its development of diagnostic tests. The company's acquisition of Sienna Cancer Diagnostics means that Bard1 now has a cancer diagnostics portfolio of both marketed and development-stage products, with the latter necessary to develop targeted platforms for patients across the screening, diagnosis, treatment and monitoring stages. Bard1 stock recently re-rated and has since trended downwards, but long-term, we're optimistic. Two stars for now, but watch for the stock bottoming.

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RIGHTCROWD

Not our crowd

Stocks Down Under rating: ★★★

ASX: RCW
Market cap: A$ 83.2M

52-week range: A$0.14 / A$0.60
Share price: A$ 0.325

Headquartered in Sydney, RightCrowd provides its clients with hardware and software that allows them to ensure that only authorised personnel can access their property and that their employees are only using the company resources that they're allowed to use. As these issues are global in nature, RightCrowd is equally as global, with 85% of its revenue generated outside of Australia during FY20. However, despite seeing consistently strong revenue growth, the company is far from profitable and a lot remains to be done before we see the company turning a profit.

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IODM LTD

One hefty valuation

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Headquartered in Melbourne, IODM is developing accounts receivable products. Basically, IODM has developed a platform that attempts to simplify clients' accounts receivables collections, management and invoicing. At first glance, the company had a stellar 1HY21 after growing its revenue 70% year-over-year. Here's the issue, though. 70% growth only resulted in $409,000 in operating revenue generated during the period. Combine this with a trailing 12-month valuation of 76.8x and we think this stock's valuation is pretty hefty.

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Share price chart

Source: Tradingview

Failing at the first hurdle

It hardly needs to be said that the market for cancer diagnostics is huge. The global cancer burden amounts to 43 million people living with the disease, with the expectation that the global diagnostics market will stretch to US$246bn by 2026. But where many detection tests exist, many fail to accurately and reliably detect early stage cancer symptoms, meaning that many cancers won't be detected until a later stage (Stage 3/Stage 4) resulting in a much poorer diagnosis. Early stage detection (Pre, Stage 1, Stage 2) may improve treatment and survival outcomes. Still, efficacy differs by cancer type: early detection of lung cancer increases 5-year survival on average by 90%, while early intervention for pancreatic cancer is low at 10%.

To avoid issues around missed diagnosis (or even under and over-diagnosis) during detection, Bard1 is using its non-invasive technology platforms to screen various cancers at different stages. The four platforms have the potential to generate a greater product pipeline across cancer indications, but the company's hTERT ICC test (a urine test to detect uncontrolled cell growth in urological cancers) is selling across multiple markets, including a new medical device registration in South Korea. Bard1's growing list of tests underlies its blinding share price, which went from 60 cents in late February to $3.63 in April.

Diagnostic stocks in vogue

The hTERT test derives the majority of revenue from the large US market (where 3.4m patients per annum are evaluated for bladder cancer), but as hTERT accounts for monitoring as well as pre-screening (as an adjunct to formal diagnosis), it could be used in up to 4.6m necessary urine cytology tests per annum. New approvals for hTERT is a key value driver for Bard1, since the ability to see this product then provides a platform for the company to market its other platforms. hTERT is an immunochemistry test for urological cancers specifically, but the company's emerging Bard1 and EXO-NET tests (the company was named after the Bard1 platform) are for other cancers.

The Bard1 platform, which is in the development-stage, covers autoantibody tests for the early detection of ovarian, breast and lung cancers. To cancer biologists, Bard1 is the name of a protein known to drive tumour formation. Bard1 the company was built around technology that used Bard1 variants as cancer biomarker. Bard1 tests essentially measure the body's immune response by assessing the level of autoantibodies to Bard1 proteins, enabling cancer detection much earlier.

The company's third platform, called EXO-NET, covers 'liquid biopsy' tests designed to capture a much wider range of tumour-associated biomarkers (proteins, exosomes, lipids, et al) in blood and other fluids than competing biopsies. The emerging tests have shown high accuracy in the detection of ovarian, breast and lung cancer, both in terms of test sensitivity (patients with cancer correctly testing positive) and specificity (patients without cancer correctly testing negative). EXO-NET is noteworthy because it fits into one of the fastest-growing areas in the diagnostics space, namely, molecular diagnostics.

Molecular diagnostics are used to gather greater information linking genetic markers to specific conditions, but the problem until now has been the lack of sensitivity in tests and a lack of specificity in target isolation. It's early days, but Bard1 reckons it has potentially cracked that puzzle without requiring wholesale changes in terms of equipment or reagents. The estimated research applications for the EXO-NET pipeline is $120m by 2025.

Still in development

Not satisfied with those three growing technology platforms, the company's fourth in development is a Sub-B2M liquid biopsy test, similar to the molecular NET pipeline, but designed for monitoring and treatment response. This is perhaps Bard1's most promising technology, with early data showing 100% sensitivity and 95% specificity in the detection of breast cancer in all stages. The merger between Sienna and Bard1 has provided the company with four distinct, but overlapping platforms with a growth pipeline.

Unsurprisingly, the product schedule is set to get busy as 2021 continues. EXO-NET is due for launch in the second quarter, with further results expected in the third, while Bard1 antibody and Sub-B2M preclinical/clinical tests are expected later in the fourth quarter. Bard1 increased its revenue from $46,000 to $128,000 in the December quarter, although research and development costs increased from $212,000 to $668,000. If positive announcements continue to follow its testing, the company can look to further capital support to get its products to commercialisation.

The trouble with Bard1 right now is that the stock jumped so heavily in February of this year after some good news on Sub-B2M that we think it will just trend downwards for a while, as it has since the spike. We like the story, but think it's got some more cooling off to do. Two stars for now, but watch for the stock bottoming.

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The items that make the crowd

RightCrowd was founded in 2004 with a mission to increase the safety and security of today's workplace by providing management with easy-to-use products and systems. This work has led the company to develop five separate products across two main product categories: wearables and software. Combined, RightCrowd's products offer its clients the ability to improve onsite security of their workplace. This includes everything from visitor management to presence control, access analytics and even contract tracing wearables. Despite the universal appeal of such a product, RightCrowd is mostly an international company with 85% of its FY20 revenue generated internationally. In addition to the Gold Coast of Australia, RightCrowd has offices in Seattle (USA), New Jersey (USA), Ghent (Belgium), Hasselt (Belgium), Santiago (Chile) and Manila (Philippines) in order to facilitate its overseas businesses.

The company still develops its products in Australia, though. This is extremely important for shareholders since this makes the company eligible for the Australian Government Research and Development Tax Incentive. In fact, at $1.4m the incentive represented 15% of RightCrowd's total revenue of $9.5m in 1HY21. Since the company is not yet profitable, this tax incentive helps limit shareholder dilution.

Sales revenue is not total revenue

RightCrowd generated $9.5m in sales revenue in 1HY21 (51% growth). However, it is important to reiterate that $1.4m of the company's total revenue came from the R&D Tax Incentive. Correcting for this in both 1HY20 and 1HY21, the company's revenue growth declines to a still-respectable 33.9%.

RightCrowd's revenue is generated through four main avenues: support, software, hardware and consulting. FY21 has so far been a mixed bag for RightCrowd, with its growth derived from the launch of its new hardware and a drastic increase in support billing. The software division saw a sharp revenue decline of 50% to $1m compared to 1HY20's $2.1m in revenue. Consulting revenue also saw a decline of 34.4% to $2.1m in revenue versus 1HY20's $3.2m. These declines were not surprising as COIVD-19 effects took its toll on demand RightCrowd's products and services.

We did mention that the company had positive news during the period. The support division saw a drastic increase in revenue ($2.1m) for the period (184% year-over-year). However, we believe this was due to the release of RightCrowd's new products rather than from increased adoption of existing ones.

Due to the release of its Presence control hardware during 1HY21, RightCrowd did see a new revenue stream emerge during the period, generating $1.8m during the period. We believe this is an optimistic sign and the company gained 50 new customers in the process. However, it is important to remember that the vast majority of its clients are international and, unlike Australia, are not returning to offices just yet. Based on this and the fact that the product was launched only recently, we are uncertain how much growth will be realised in the coming fiscal periods.

No clear path through the crowd

RightCrowd is far from profitable despite its strong adjusted revenue growth of 33.9% in 1HY21. During the period, the company generated a net loss of $2.9m. Unfortunately, management hasn't provided any revenue guidance and there is no broker coverage of RightCrowd yet. So, we don't have any forecasts to go by when it comes to valuing the stock.

We see that the company's new products had strong initial adoption. Yet, we remain concerned that the rest of the world's COVID-19 situation is far from under control. Therefore, the rest of the world may not return to the office as fast as Australia has, despite vaccine rollouts gathering pace. We believe this places a damper on RightCrowd's potential future demand. Although the trailing 12-month EV/Revenue multiple of 6.5x is not bad for a fast-growing company, we believe there's a bit too much uncertainty when it comes to the company's international business to give it four stars. So, it's three stars for now.

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Share price chart

Source: Tradingview

It's all about the receivables

IODM was founded in 2008 after its founders thought there was a gap in the market for a new accounts receivable software solution. The company has now developed a software product that offers its clients a wide range of features, from SMS and email reminders to automatic collection letters. The platform also allows for credit checks and real-time data analytics covering clients' income state of affairs.

IODM has operations in the Asia Pacific region, the United Kingdom, India, Australia and New Zealand. The company monetises its platform through two main divisions: implementation and customisation and licencing fees. One of the benefits of IDOM's software is its ability to be white-labelled, making it seem like its client created the software. The company then charges its clients licencing fees for the use of its software. During 1HY21, this source of revenue grew 74% to $388,853.

Historically, implementation and customisation fees are highly seasonal, with the majority being generated during the second half of the financial year. During FY20, this division generated 24% of total revenue.

Nice percentage, but the numbers are too low

IODM saw an impressive operational revenue growth rate of 70% during 1HY21. But here's the issue, operational revenue was only $409,089 during the period, while total revenue amounted to $695,119 when we include the $262,823 from the Australian government in the form of an R&D Tax Credit.

Despite the significant percentage increase in revenue during 1HY21, the company's loss only declined 17% during 1HY21 to $1m. Based on the fact that IODM only had $71,009 in cash and cash equivalents at the end of 1HY21 (excluding the $1.75m raised in exchange for 11,666,667 shares at $0.15 on 6 January 2021), it's clear to us that shareholders can expect heavy dilution going forward. Driving this point home, management has historically issued stock to cover the company's losses. During FY18, FY19 and FY20, the company issued $910,000, $1.2m and $2.4m in new shares, respectively. During 1HY21 alone, management issued $1.6m in new stock. Unfortunately, we do not believe the company can effectively tap the debt markets at this stage and it seems unlikely that IODM will reach profitability anytime soon.

Low numbers with a high valuation

IODM is currently trading at a trailing 12-month EV/Revenue ratio of 76.8x. The reason for this is simple, the company has a current market capitalisation of $80m when it is unlikely to even generate $1m in sales during FY21.

Here at Stocks Down Under, we certainly don't have a problem with companies in the early stages of development and we have rated many four stars. However, the main difference between those companies and IODM is that there was a visible path to justifying the current valuation, or the company had some strong and game-changing intellectual property that it was moving towards monetising. Unfortunately, we do not believe IODM falls into either of those categories. We believe the company will continue to struggle to reduce its losses, leading to more dilution for shareholders as the company raises more capital.

Business can be harsh and it is also constantly changing. But until something major changes in IODM's story, we just can't see a way for it to claw its way out of its current cycle of shareholder dilution. So it's two stars from us.

Pitt Street Research Pty Ltd

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