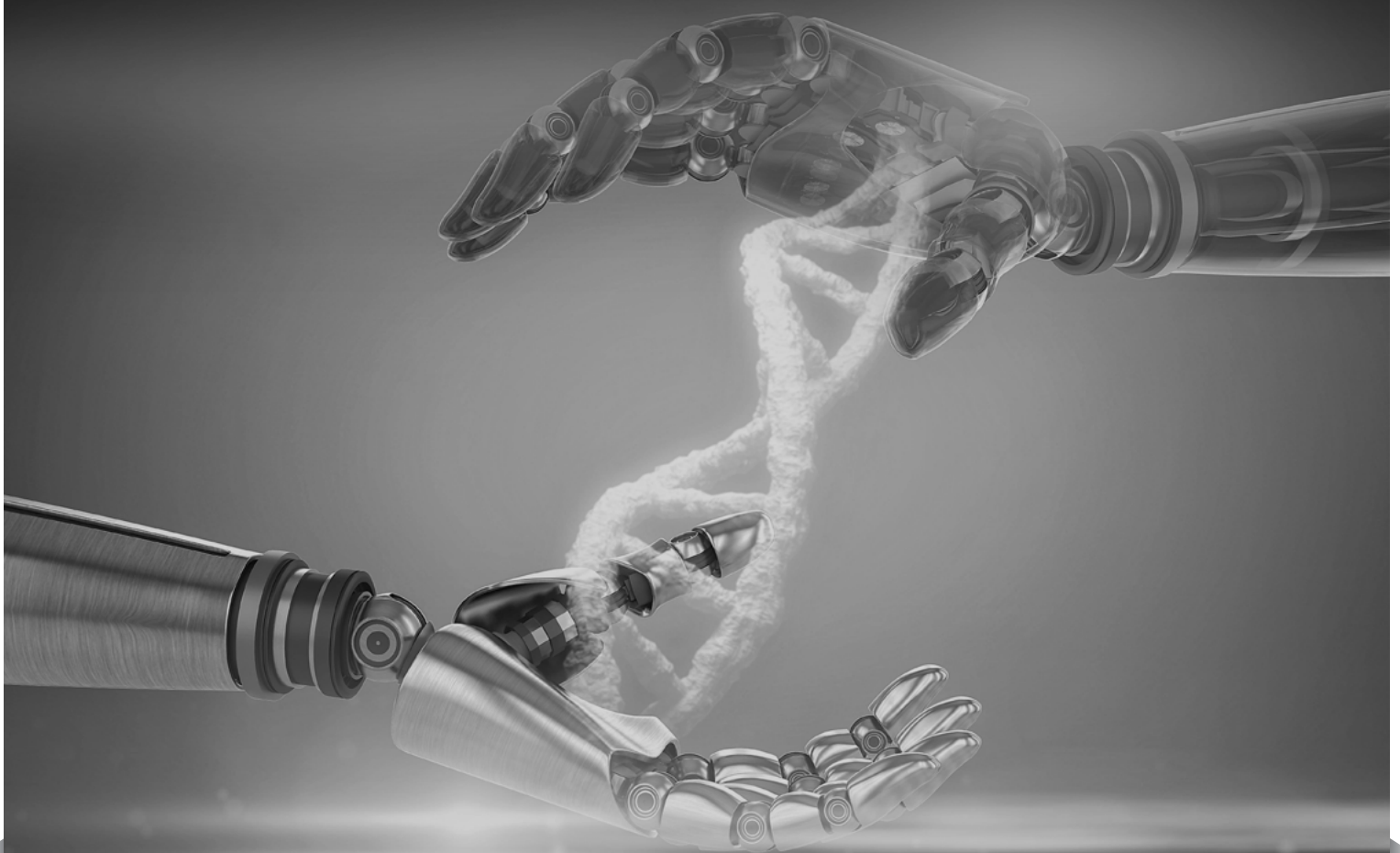




Emerging Stocks Down Under

🗨️ *I intend to live forever. So far, so good.* 🗨️

- Steven Wright (b. 1955), American comedian



**DUG
TECHNOLOGY**

DUG Cool is pretty cool

LIVEHIRE

Limited growth
opportunities

**IMAGION
BIOSYSTEMS**

Imagining big

DUG TECHNOLOGY

DUG Cool is pretty cool

Stocks Down Under rating: ★★★★★

ASX: DUG
Market cap: A\$105M

52-week range: A\$0.93 / A\$1.54
Share price: A\$1.04

Perth-based DUG Technology is a hard- and software solutions company, providing everything from Computing as a Service to (CaaS) to data centre cooling solutions and geoscience services. With a special focus on environmentally friendly computing, DUG Technology aims to stand out from the highly concentrated software sector through its innovative cooling solution and an immensely large portfolio of services for a company its size. However, we believe the biggest problem for DUG is the simple fact that its competition includes the likes of Microsoft and Amazon. But DUG Cool is pretty cool!

[READ MORE](#)

LIVEHIRE

Limited growth opportunities

Stocks Down Under rating: ★★★★★

ASX: LVH
Market cap: A\$103M

52-week range: A\$0.24 / A\$0.48
Share price: A\$0.36

Livehire is a Melbourne-based company that facilitates talent acquisition through its eponymous software. It provides solutions for the complete hiring process, from sourcing and engaging potential employees to integrating them within the organization. Since going public in 2016, the company has had trouble scaling and hitting its growth targets. Despite having a fairly high cash burn rate, COVID-19 may have provided the company with a route to profitability.

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IMAGION BIOSYSTEMS

Imagining big

Stocks Down Under rating: ★★★★★

ASX: IBX
Market cap: A\$74M

52-week range: A\$0.06 / A\$0.23
Share price: A\$0.07

Imagion Biosystems uses 'superparamagnetic relaxometry' to develop new medical imaging tools. The term is a mouthful, but superparamagnetic relaxometry is so good, Imagion believes its equipment can replace Magnetic Resonance Imaging (MRI) and other forms of medical imaging in cancer detection. With additional applications in bio and nanotechnology, Imagion seems ready to innovate in a space that desperately needs such innovation.

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Share price chart



Source: Tradingview

Small fish in a big pond

The main service offered by DUG is its high-performance CaaS (Computing as a Service). CaaS allows companies to access computing power that would require a huge upfront cost if they tried to set it up in-house. Making use of high-performance data centres, companies can essentially be supplied with compute resources as per their demand and they are only charged for their consumption. This is especially advantageous for companies that do not need access to high-performance computer resources regularly and companies that don't have the resources to build their own infrastructure or don't want to build those.

Apart from CaaS, DUG also offers data services, with its unique feature being the ability to run jobs without the need for setting up partitions or virtual machines. DUG provides services to the Technology and Resources sectors with advanced software and algorithm support and tools for specific workflows, such as DUG Insight that allows 2D/3D/pre-stack visualization and interpretation.

All of this is encapsulated by DUG McCloud, which acts as a base for all of the company's services and allows companies to have a flexible plan for their storage, computational and software needs.

The major issue, however, is the strength of DUG's competition. Most of the services offered by DUG are also offered by some of the biggest companies in the world. Microsoft's Azure and Amazon's Web Services (AWS)

not only provide almost every service provided by DUG, but the packages offered by those companies provide integration with numerous other products, such as Office 365 for Microsoft.

DUG currently operates its servers in four main areas: Australia, Malaysia, the US and the UK. Its competition, on the other hand, operates in almost every single country in the world. We believe this makes it difficult for DUG to compete, especially since these larger competitors have substantial economies of scale, giving them a cost advantage over DUG.

A pond of dielectric-fluid

Although the data centre space is very competitive, there is one area where we believe DUG has an edge over the competition: Its data centre cooling solution. DUG Cool is a proprietary technology that makes use of polyalphaolefin dielectric-fluid to cool the supercomputers in the company's data centres. According to DUG, the use of condensed water-cooling chillers saves up to 30% of the power bill, with the removal of the server fans eliminating a further 20%, leading to total power savings of around 50%.

We believe DUG Cool is the only part of DUG Technology that is truly unique and offers a competitive advantage. The technology is currently deployed in all four of the company's data centres, and we believe that finding buyers for it could offer significant revenue opportunities for DUG. For now, however, the company is primarily focused on its cloud and CaaS business, which grew 86% in 1HY21 over the previous corresponding period).

Swimming upstream

On 15 February 2021, DUG's Texas-based supercomputer 'Bubba' went offline due to extreme weather conditions. It was back online on 21 February, causing a loss in revenue of 10-15% for the month. It was an unexpected event that the company was unable to prevent. But it shows how having a relatively small number of data centres leaves small players like DUG vulnerable. We expect to hear more about this during the company's 31 August 2021 FY21 results and investor briefing. However, we don't believe investors are in for any positive surprises.

DUG's plans for expansion currently include building the world's first carbon-free computing data centre in Geraldton, WA. It is also continuously increasing its storage and compute capacity to accommodate new clients. In February 2021, the company signed a contract to provide computing infrastructure to Imperial College London. This came after a major contract with an oil and gas company and the Harry Perkins Institute of Medical Research in October 2020.

Share price has come off the boil

Consensus estimates show that the company is expected to generate a very small EBITDA profit in FY21 and will see EBITDA jump to \$15m in FY22 and grow further to \$20.7m in FY23. At the current share price, which has come down quite a bit in the last 5 weeks, DUG is trading at an EV/EBITDA multiple of 8x for FY22 and 5.9x for FY23, which we think is quite attractive given the anticipated EBITDA growth in the next two years.

Although we believe DUG will find it difficult to compete with the major players in the data centre space longer term, DUG Cool certainly has potential, in our view. And given that the share price has come off the boil since the \$1.45 high in early July, we think DUG is a four-star investment at the moment.

LIVEHIRE

Limited growth opportunities

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Share price chart



Source: Tradingview

If we build it, will they come?

Livehire was founded in 2011 and has had a singular goal since then: To facilitate the hiring process for companies in any way possible. It works with companies to provide solutions in everything from talent attraction to recruitment analysis. On top of that, the company also works directly with job seekers, allowing them to build profiles on the platform and find the right career path.

The actual product provided by the company is quite simple. It integrates basic functionality found in other applications (such as instant messaging and scheduling capabilities) and combines them to form a cohesive talent acquisition package. One key advantage of using Livehire is that it allows clients to make mass hiring easier by organizing and automating huge parts of the talent acquisition process. Through Livehire, clients can quickly develop and manage talent pools that allow them to fill vacancies with people of appropriate skills quickly.

The software itself is focused on great user experience and ease of use. It tries to facilitate job-seeking while simultaneously facilitating hiring, thereby creating a mutually reinforcing process that makes it easier for both the employer and the employee to fill roles.

One big problem that we see for the company is that only large organizations and corporations are in a situation where Livehire would benefit them, in our view. Smaller companies that only need to hire a few people a year may not want to spend on a platform like Livehire, especially with services such as LinkedIn offering access to a much wider talent pool, albeit with a less tailored packages.

Another issue is that, while the company has experienced a sizeable increase in revenue going from \$860,000 in FY16 to almost \$3.5m in FY20, the operating costs have also risen strongly in the same timeframe, from \$4.4m to \$18.3m. It seems that the company needs a way to drive revenue growth without having to scale up its operations even further. Thankfully for Livehire, COVID-19 may have been a blessing in disguise.

COVID-19 to the rescue

In a strange way, COVID-19 may just be beneficial to Livehire. According to Hays' salary guide, a third of Australian workers are expected to leave their jobs by June 2022. The reasons range from a lack of promotional opportunities to changed priorities after the pandemic.

Having stayed at home for months on end, an increased period of reflection and a preference to work from home has led people to re-evaluate their work situations. The report from Hays also mentioned that over half of the workforce is unsatisfied with its employer, pointing out the fact that companies increasingly need to find ways to increase employee retention.

This gives Livehire a fantastic opportunity to increase its revenue, in our view. By allowing organizations to build talent pools and having an increasing number of potential employees in its database, Livehire should be able to capitalize on an increasingly mobile workforce.

Apart from COVID-driven opportunities, Livehire has also been trying to expand in two other ways. Firstly, by entering the US market, which it did in March 2018 through a partnership agreement with Workforce Logiq, a US-based workforce management company. Since then, it has won numerous direct sourcing contracts. It also signed a referral partner agreement with Bayard, the recruitment advisory firm, to access the wider US market.

Secondly, Livehire signed multiple contracts with Australian State governments. It has so far signed two government staff redeployment contracts with the states of Victoria and Queensland. The contracts involve redeploying staff into areas of need during COVID-19. Like we have seen with numerous other companies, these contracts can snowball into further collaboration with state governments for Livehire.

A new lease on life

Like certain essential businesses, COVID-19 has provided Livehire with many opportunities for pursuing growth. That said, we are still apprehensive of the company's ability to grow beyond the opportunities that have opened up due to COVID-19. Once the dust settles, we believe the main growth avenue left for Livehire will be expansion into other countries, where the company will face intense competition from companies such as Greenhouse and Lever.

Consensus estimates show Livehire not generating an operating profit until FY23, and only a very small one of \$240k. EBITDA for the following year is estimated at \$10m while the company's EV/EBITDA multiple for FY24 is 8.4x. But that's 3 years away.

At the current share price, we think Livehire is a three-star company with limited growth potential long term. While COVID-19 could help the company propel it to profitability, we fail to see significant growth catalysts beyond that.

IMAGION BIOSYSTEMS

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Share price chart



Source: Tradingview

What we have and what we want

When doctors order MRI scans of their patients, they are availing themselves of one of the most powerful diagnostic imaging tools yet invented. Imagion Biosystems thinks it can go one better, but before we explain why, let's see how MRIs work.

MRIs are 'magnetic' because they use magnets to produce a magnetic field in the patient's body. All the protons in the cells caught in that field then align with that magnetic field. Once a current is passed through the field, the protons move about randomly as they lose their equilibrium state. MRI sensors then detect the energy released by the protons – their 'resonance' as they realign with the magnetic field once the current is turned off. Since the energy released and the time taken to return to equilibrium are different for different molecules, it is possible to map the various tissues in the body using this method.

While MRIs are fairly accurate, they do pose certain risks. Due to the extremely strong magnetic fields generated by the MRI machines, extreme precautions must be taken. For this reason, MRIs cannot be performed on patients with pacemakers and metal implants. The machines also generate loud noises that require ear protection and prolonged examinations may heat the body to a dangerous point. Apart from this, numerous other complications may cause irreversible damage to patients in rare cases.

Despite the risks, MRI is the best FDA-approved medical imaging technology that we currently have. Imagion, founded in 2016, believes that it has discovered a seriously better alternative to the MRI.

The seriously better alternative

Imagion's technology is much simpler than MRI technology. Its MagSense product is simply magnetic nanoparticles that bind themselves to a tumour. They can then be detected through a high-sensitivity magnetic sensor. MagSense is more accurate than an MRI as it can detect whether a tumour is malignant or benign, rather than just identify the region in which it is found. MagSense is also safer than an MRI as it does not create a magnetic field during testing and reduces the need for biopsy procedures.

Imagion's second product are the nanoparticles that MagSense uses. Named PrecisionMRX, these nanoparticles have a lot of medical applications, ranging from medical imaging (as discussed) to magnetically-based immunoassays.

The FDA echoes its support

In July 2019, MagSense was granted the 'Breakthrough Device' designation by the FDA. This designation allows a company to receive input from the FDA on how it can comply with its safety and efficacy guidelines. It also allows for an expedited review post-submission, thereby decreasing the time-to-market for the device.

Imagion also completed the toxicology study for MagSense regarding the detection of HER2 metastatic breast cancer in 2019. This was an important milestone on the road to a Phase I clinical trial. A Phase I trial tests a particular device or drug on humans to make sure it is safe. Subjects are closely monitored for side effects and risks. If deemed safe, Phase II trials can begin in order to determine the efficacy of the drug or instrument.

Imagion outlined its plans to begin a clinical trial in June 2020 and raised \$5m in July at 4.5 cents per share to achieve that goal. After gaining approval from the Human Research Ethics Committee, the company raised a further \$6m at 8.5 cents per share. The capital was allocated to scaling up manufacturing facilities to support the clinical trial. Finally, the first patient was enrolled in the trial in May 2021. The company plans to enrol a total of 15 patients in Phase 1 and aims to complete this phase towards the end of 2021.

The world needs MagSense

It has been over 50 years since we saw a breakthrough in medical imaging technology. We believe that Imagion is about to change that with MagSense.

If the claims made by the company during the clinical phase turn out to be even partially valid, MagSense will likely be a much better cancer detection method compared to current methods. On top of that, due to the non-invasive nature of the device, the estimated costs of using MagSense are much lower than MRIs and other imaging methods. In our opinion, this will ensure quick adoption across target markets if and when the device is approved by the FDA.

The company has also managed to diversify its offerings through PrecisionMRX. Orders for nanoparticles have been coming in steadily since 2019 and are proof that Imagion is on the right track, in our view.

With enough cash at hand to see the company through FY22, we believe Imagion to be a four-star investment. All the fundamentals point to MagSense being a seriously better alternative to current imaging devices and while commercialization may be some time away, we believe the shares are undervalued at the current price. Four stars.

Pitt Street Research Pty Ltd

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