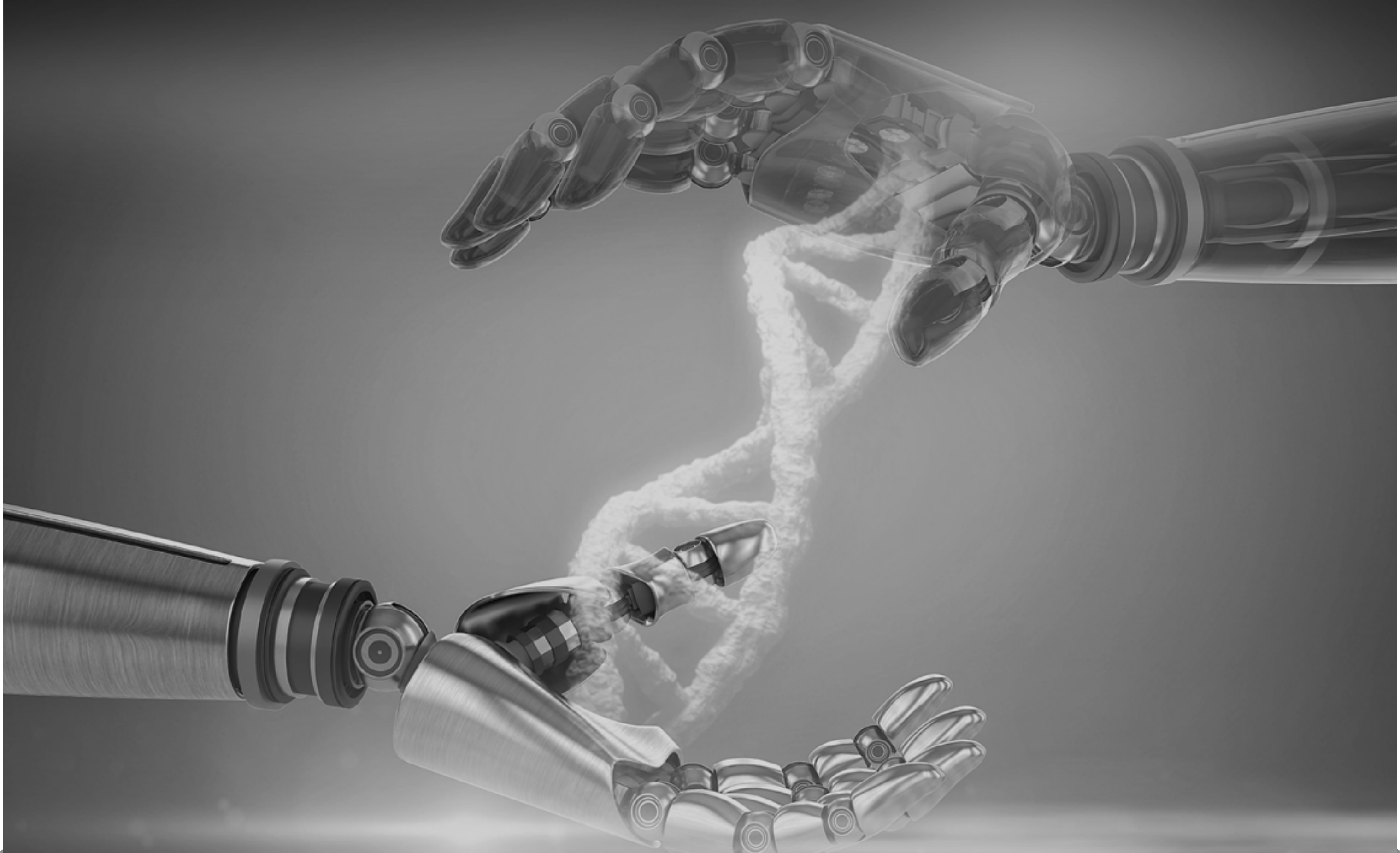
STOCKS DOWN UNDER

24 AUGUST 2021

Emerging Stocks Down Under

"The only animal capable of giving man a fair fight is man. Actually, among ourselves, we fight unfairest of all, and the more we practice, the nastier we get."

- Robert Buettner (b. 1947), Author of the Orphan's Legacy series



PRESCIENT THERAPEUTICS

Making headway in cancer treatment

COSOL

Small, but mighty

CARDIEX

A few years can make a big difference

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Stocks Down Under rating: ★★★★

ASX: PTX
Market cap: A$ 119M

52-week range: A$0.054 / A$0.285
Share price: A$ 0.18

Prescient Therapeutics is a Melbourne-based clinical-stage oncology company currently developing and trialling drugs for the treatment of a variety of cancers. It is currently in Phase-II trials for its lead candidate PTX-200, which has potential to be used for the treatment of HER2-negative breast cancer, amongst other things. Apart from this, the company has a pipeline that targets relapsed and refractory AML, ovarian cancer and cancers with Ras and RhoA mutations.

READ MORE

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ASX: COS
Market cap: A$ 80.4M
Dividend yield: 1% (100% Franked)

52-week range: A$0.53 / A$0.85
Share price: A$ 0.61

Based in Brisbane, COSOL offers a plethora of proprietary software, services and solutions to clients that are operating in asset-intensive industries. Its services allow rapid deployment of Enterprise Resource Planning (ERP) and Enterprise Asset Management (EAM) software. In addition to that, COSOL offers tailored management and advisory services backed by software that can help companies monitor and deploy resources in an efficient manner.

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Share price chart

Source: Tradingview

A four-legged horse

Prescient was founded in 1986 and later on backdoor-listed on the ASX. The company changed its name to Prescient Therapeutics in December 2014, after PTX-200 had shown significant potential in the treatment of cancer. The PTX line of drugs had been acquired by the company in mid-2014 and it was transferred the IND-sponsorship of PTX-200 and PTX-100 in 2015.

PTX-200 inhibits a tumour survival pathway known as Akt. Historically, drugs inhibiting Akt have had a problem with toxicity, causing a huge barrier to commercialization. PTX-200, while not completely safe, has a novel mechanism for action that significantly reduces the risks while still inhibiting Akt.

PTX-100, on the other hand, is a compound that can block a tumour growth enzyme known as geranylgeranyl transferase-1. This means that PTX-100 can disrupt oncogenic circuitry and kill cancer cells. The drug is considered to be the only RhoA inhibitor in the world. RhoA is a protein that is responsible for detaching migrating cells and regulating their function. It is a protein that scientists believe to be involved across all stages of tumour progression. This means that a safe RhoA inhibitor could be a gigantic leap forward in cancer treatment.

Apart from this, the company also develops cell therapies in collaboration with Carina Biotech, the Adelaide-based biotech company also specializing in cancer treatment. The two companies work on Car-T, a therapy that takes immune cells from the patient's body (T-Cells), trains them to fight cancer and then reinjects them into the patient. Prescient has been able to develop OmniCAR as a result of this partnership, which is an immune receptor platform that allows for controllable T-Cell activity.

The major advantage of OmniCAR is that it allows clinicians to make Car-T much safer, as they have a much higher amount of control over the activity of the cells, This includes a kill switch in case something goes wrong. OmniCAR also allows clinicians to target multiple areas using the same number of cells, thereby making it imperative to the spread of Car-T in clinical use.

Galloping forward

Since 2014, Prescient has been testing its line-up of drugs against as many types of cancer as possible. In January 2016, the FDA approved PTX-200's IND application for the treatment of acute myeloid leukemia (AML). The Phase-I trial, which showed 17 out of 32 patients exhibited stable disease with three patients showing complete or partial response, was used as the basis for allowing Phase-Ib/II trials to go ahead.

In February, the company completed its dosing for Phase-Ib of HER-2 negative breast cancer trials. Phase-I trials are used to ensure the drug is safe in humans, followed by Phase-II that tests its efficacy in a larger number of patients.

In September 2016, Prescient commenced its first dosing for a Phase Ib/II clinical trial for breast cancer, followed by the first dosing for AML in December. The company experienced a brief scare in May 2017, when one of the patients enrolled in the breast cancer trial passed away. This caused a halt in both the ovarian and breast cancer trials. However, it was determined that PTX-200 had no relation to the death of the patient and the halt was lifted towards the end of the year.

A stable of treatments

The company raised $9.1m at $0.05 per share in March 2019, followed by $7m at $0.055 in August 2020 to fund its operations. Currently, Prescient has multiple PTX-200 clinical trials in Phase-Ib and a PTX-100 basket study in Phase-Ib. Basket studies are used to test a drug or combination of drugs against various types of cancers to determine their efficacy. On 27 July 2021, Prescient announced that PTX-100 had presented an excellent safety profile in the report following its successful Phase 1b trial. Therefore, PTX-100 is now progressing to an expansion cohort study, focusing on T-cell lymphoma (TCL). An expansion cohort study is effectively an expanded version of the Phase 1b trial, in order to hone in on the Maximum Tolerated Dose (MTD).

The company's Car-T therapies are all in the pre-clinical stage, being tested for breast, ovarian and gastric cancer along with AML. The company also has two other, undisclosed, trials in the pre-clinical stage.

The initial results from both the PTX-100 and PTX-200 trials have been positive. However, it is impossible to judge just how significant the impact of the drugs has been until the trials come to completion. That said, with multiple therapies and diversification across two completely different technologies (Car-T and PTX), we believe Prescient is a strong company with the potential to make huge inroads into oncological treatment.

With more than $18m in cash at the end of 1HY21, Prescient should have no trouble moving its trials forward and should be able to conduct all the pre-clinical tests for its Car-T therapies. The trial for PTX-100 is especially exciting because the drug could be used to treat numerous forms of cancer if deemed effective. Lastly, the two undisclosed trials could also be potential revenue sources for the company. As such, we believe Prescient is a four-star investment that is bound to make headway into cancer treatment over the next few years.

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Source: Tradingview

The company's spine

Nowadays, most companies operating in the software-solution space usually offer some form of cloud-based service. We have covered many of those companies in Stocks Down Under (such as DUG Technology | see 10 August 2021 report). COSOL, founded in 2000, focused instead on companies that have a high number of assets. Assets so large in number that their management becomes a problem. While this means that COSOL's list of potential clients is much smaller compared to other companies in the software space, it also means that there is less competition for the company to deal with.

The industries served by COSOL are mining, public infrastructure, defence and utilities. Operating in only four industries allows the company to develop expertise and thereby offer key advantages over competitors that serve a more general audience. As such, COSOL provides everything from resource and data management to strategic reviews, with the fundamental goal of the company to help customers increase efficiency and reduce wastage of resources.

One of COSOL's main proprietary products is Copernicus. It integrates ERP and EAM into one package. Copernicus is pre-configured for mining companies, thereby allowing the solution to be implemented much faster than usual for systems of this scale, while simultaneously saving on capital expenditure.

The second product is RPConnect, which is a data management platform that allows companies to migrate and standardize data across multiple systems, securely store legacy data and integrate their data into various systems, such as Ellipse from Hitachi ABB and IBM Maximo, two widely used EAMs.

COSOL also offers Evergreen, a subscription-based solution that allows companies to make sure their systems are up to date without having to face extensive disruptions in their operations.

Developing limbs

Software is only one element of COSOL's offering. The company, in essence, is responsible for integrating its software into clients' operations, migrating data from legacy sources and ensuring a smooth transition to the new system.

There are two other major elements to the company. One is its tailored managed service, where the company designs solutions for its clients according to their specific requirements. Like the company's products, COSOL's consultants work with a wide variety of ERPs and EAMs to ensure that they can advise the client appropriately. The third element is COSOL's advisory division, which helps clients with business strategy, benchmarking performance and reviewing/improving the technology used by the client.

The company was officially listed on the ASX in January 2020 and has since gone from strength to strength. It has signed numerous high-value contracts, the largest of which was for the extension of the Department of Defence's ERP Program, which is worth a total of $8.5m. This was awarded in April 2021 and came on top of a contract worth $3.2m awarded in August 2020.

The company also acquired AddOns Inc, the US-based professional services organisation, in October 2020. AddOns has a suite of data-management apps that is used by over 50% of ABB's Ellipse EAM users. This presents a clear goal for the company moving forward: To expand from Australia and become a global force in EAM services. Starting with the US is an obvious choice, given the large size of the addressable market.

Beyond the body

Despite the company's small size, it is already generating a profit. The sheer increase in revenue, going from $4.1m in FY17 to $22.2m in FY20 is a testament to COSOL's potential, in our view, and the advantage of focussing on a select few industries. It is worth highlighting, that due to significant contract wins and overall growth in the adoption of its RPConnect platform, COSOL's revenue and EBIT respectively jumped 64% and 42% year-over-year in FY20, beating IPO forecasts by 3.4% and 9.3%. During 1HY21, COSOL continued on the strong growth path it was on during FY20, generating $2.56m in EBIT (32% growth), on $15.6m in revenue (45.4% growth).

Looking ahead, we believe the company can expand its business in the US and transfer its Australian expertise over to the US in the short term. In the long run, the company has a clear goal of offering its solutions globally.

COSOL's business model is extremely solid, as shown by the fact that it is profitable on relatively low revenue levels. With only a small number of employees needed and little to no marketing costs (as it deals with corporations that are few in number), the company can keep its costs extremely low even as it expands. And based on the stock's trailing 12-month (31 December 2020) EV/Revenue of only 2.7x, we believe the shares are not expensive.

With its foot in the door of the US EAM market, we believe COSOL is a four-star investment that shows that diversification is not the only way to achieve business growth and that concentrated expertise can be leveraged quite attractively.

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Share price chart

Source: Tradingview

The struggle for SphygmoCor

Cardiex was founded as AtCor Medical in 1994. The company was created to design, develop and market SphygmoCor, which was approved for use in Australia in 1996, Europe in 2000 and the US in 2002.

Cardiex was listed on the ASX in 2005 and the company unveiled the second-generation SphygmoCor technology around the same time. The company continued to improve its technology and gain clearances throughout major worldwide jurisdictions. Cardiex expanded its business to China in January 2014 with the approval of its newest SphygmoCor system, the same one that is in use today.

This new system is the SphygmoCor XCEL. XCEL uses pulse wave analysis (PWA) or pulse waveforms (PWF) to capture brachial waveforms, which are analysed to provide a central aortic waveform. This can be used to determine the patient's central aortic blood pressure. Central aortic blood pressure gives much better insights into a patient's cardiovascular health and can be a better predictor of cardiovascular diseases.

The key difference between PWA and PWF is that PWA uses a standard brachial cuff to measure blood pressure. In contrast, PWF uses both a brachial and a leg cuff to ascertain the blood pressure at both carotid and femoral sites. The physical distance is then used to measure the velocity of the pulse wave.

In March 2016, the company obtained FDA clearance for a new device: Oscar 2 with SphygmoCor inside. This device was developed in collaboration with SunTech Medical, the US-based medical equipment manufacturer. Oscar 2 is an ambulatory blood pressure monitor, meaning that it can continuously monitor the patient's blood pressure and arterial stiffness. The device can link to patients' smartphones through Bluetooth and allow them to track their statistics through an app called True24.

A revolution is needed

Despite having a huge advantage over standard blood pressure measuring devices, the company's singular approach was not yielding any profits. Even today, with over 4,500 SphygmoCor systems in use by clinics and hospitals worldwide, the company has not generated a profit. It was clear that a change was needed and that change came about in March 2016.

A new management team took control of the company and a new strategy was developed. AtCor planned to expand the number of devices offered while simultaneously expanding its operations to new areas. Keeping this new vision in mind, the company rebranded as Cardiex in May 2018, with AtCor becoming a subsidiary of the company.

Cardiex purchased a 7.5% stake in Blumio, a US-based wearable blood pressure sensor company, in June 2018 for $600,000. Blumio launched a large-scale clinical trial to demonstrate the viability of its product in November 2018 and in December 2018 the companies signed an agreement to co-develop the sensor.

In the same month, Cardiex raised $5.5m at $0.03 per share through a placement to fund the acquisition of inHealth, a US-based telehealth company. InHealth would allow Cardiex to diversify its income streams and have a stable source of revenue to fund the development of its next device.

CONNEQTing the dots

In all likelihood, the blood pressure sensor in development with Blumia will be used in a product by CONNEQT, Cardiex's other subsidiary. CONNEQT is focused on developing wearable technology that focuses on heart health and general fitness for consumers.

The first product will be a smartwatch, much like the ones made by Apple, but with a much higher focus on health monitoring. The watch will be developed in collaboration with Google-backed start-up Mobvoi.

Despite its foray into wearables and telehealth, Cardiex is continuing to develop the SphygmoCor system and integrate it into all its other products. In September 2020, the company signed an agreement with the China-based medical equipment manufacturer Andon to manufacture telehealth devices that can remotely monitor patients.

It seems that the company's new strategy, which it has been working on since 2016, is finally paying dividends, figuratively that is. With multiple ways to generate revenue and multiple devices in the works, the future looks bright for Cardiex. The company currently has a total of eight patents in its arsenal, with five patents pending. Two of the eight patents are applicable in the US, Japan and Europe, while the rest are applicable in the US only. Through this arsenal, Cardiex was able to announce revenue growth of 32% year-over-year in FY21, measured in constant currencies.

The company's ambitions are global, as evidenced by its offices in Sydney, the US and China. The Chinese office focuses exclusively on Asian market development. We expect that it will take Cardiex two to three years to bring its new line of products to market and that is when the company should be able to begin generating significant revenues. For example, the CONNEQT Band is expected to launch in 4Q22, assuming it gets FDA approval.

Consequently, we think Cardiex offers significant upside potential with a management team that has shown nothing but excellence since it took over five years ago. The one major short-term risk we see is the 163,200,000 in listed and unlisted options (17.6% of current shares outstanding) with and exercise price of $0.05 per option with an expiration date in November 2021. Apart from that, we are excited to see how fast the company can ramp up revenues. Four stars.

Pitt Street Research Pty Ltd

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