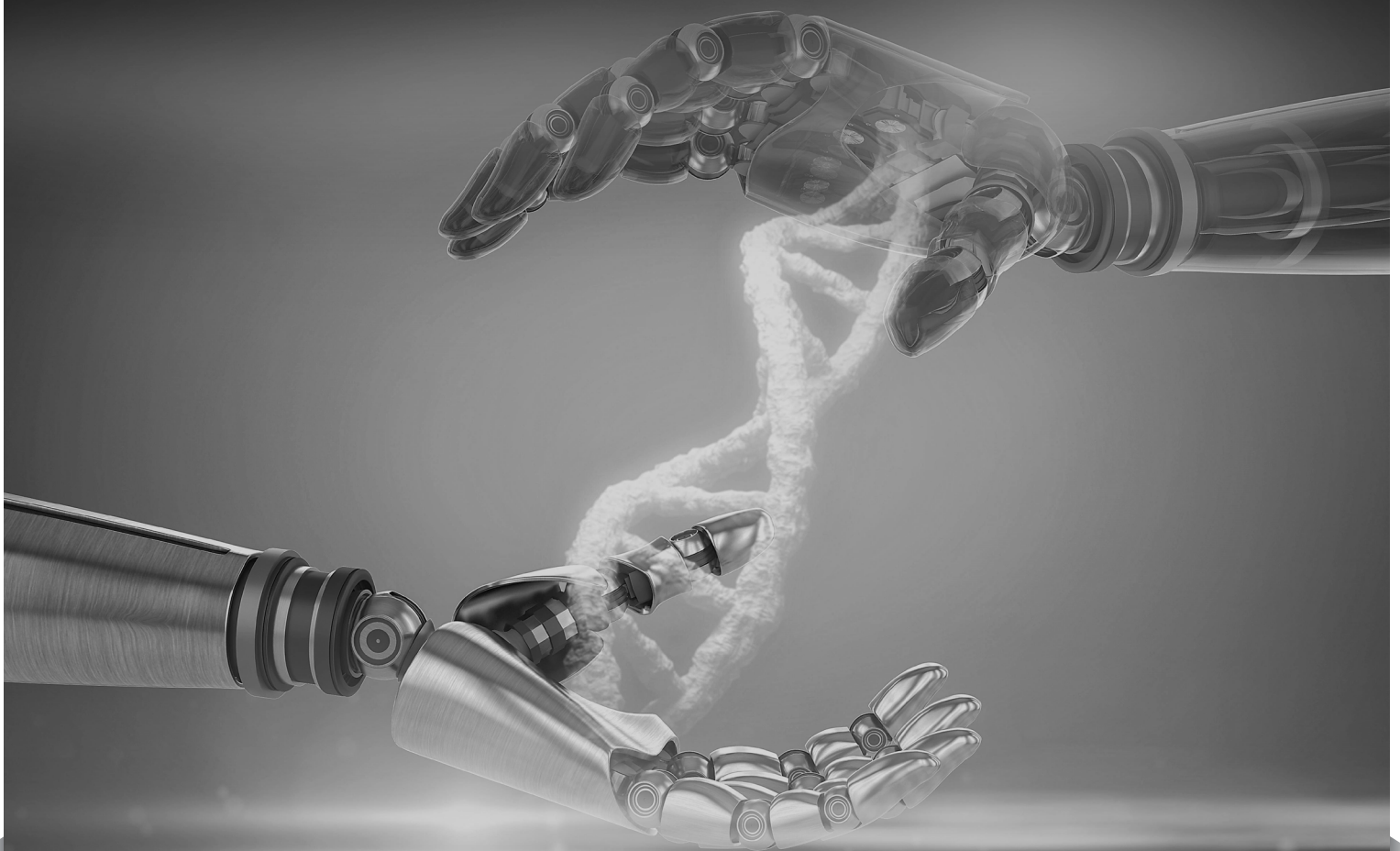




Emerging Stocks Down Under

🗨️ *I distrust camels and anyone else who can go a week without a drink.* 🗨️

- Joe E. Lewis (1902 - 1971), American comedian



IDT AUSTRALIA

We just missed the boat

PATRY'S

Rapid progression

GENETIC TECHNOLOGIES

The bad gene

IDT AUSTRALIA

We just missed the boat

Stocks Down Under rating: ★★

ASX: IDT
Market cap: A\$ 162M

52-week range: A\$0.15 / A\$0.755
Share price: A\$ 0.675

Based in Melbourne, IDT Australia is a company that manufactures pharmaceutical ingredients. Since 1975, the company has been manufacturing Active Pharmaceutical Ingredients (APIs) and Finished Dosage Forms (FDFs). Apart from this, the company offers packaging, analytical and project management services. The company also began developing cannabis products in recent years, diversifying its portfolio. Since 2014, IDT has found a formula that works and it seems that it is about to reap the rewards of its efforts.

[READ MORE](#)

PATRYS

Rapid progression

Stocks Down Under rating: ★★★★★

ASX: PAB
Market cap: A\$ 78.6M

52-week range: A\$0.011 / A\$0.063
Share price: A\$ 0.042

Patrys is a Melbourne-based company that is currently developing antibody technologies to treat cancer. The company produces proprietary antibodies that can target cancer cells wherever they are in the body. The company uses Deoxymab 3E10, an antibody that has shown potential in repairing DNA in cancer cells. With three forms of Deoxymab in the preclinical phase, Patrys is edging towards market entry with the help of crucial research partners that include Yale University and Imagion Biosystems (ASX: IBX | [see 10 August 2021](#)).

[READ MORE](#)

GENETIC TECHNOLOGIES

The bad gene

Stocks Down Under rating: ★★

ASX: GTG
Market cap: A\$ 69.2M

52-week range: A\$0.006 / A\$0.014
Share price: A\$ 0.008

Genetic Technologies is a Melbourne-based molecular diagnostics company. It operates in Australia and the US, providing tests for breast and colorectal cancer. The company uses an assortment of indicators to predict the chances of developing certain cancers within a specific timeframe. The company also conducts genetic testing (medical, animal, forensic and plants). With numerous research collaborations with universities, the company is continuously researching ways to innovate cancer diagnostics. Sadly, it has all been to no avail so far.

[READ MORE](#)

IDT AUSTRALIA

We just missed the boat

Stocks Down Under rating: ★★

ASX: IDT
Market cap: A\$ 162M

52-week range: A\$0.15 / A\$0.755
Share price: A\$ 0.675

Based in Melbourne, IDT Australia is a company that manufactures pharmaceutical ingredients. Since 1975, the company has been manufacturing Active Pharmaceutical Ingredients (APIs) and Finished Dosage Forms (FDFs). Apart from this, the company offers packaging, analytical and project management services. The company also began developing cannabis products in recent years, diversifying its portfolio. Since 2014, IDT has found a formula that works and it seems that it is about to reap the rewards of its efforts.

Share price chart



Source: Tradingview

Don't design; produce instead

IDT does not design any pharmaceutical drugs of its own. Instead, it is involved in the manufacturing of ingredients and the production of drugs. This is both a positive and a negative. While the company does not have to deal with research, development and clinical trials, it has to rely on other companies to hire them instead. The company manufactures both APIs and FDFs. APIs are substances that are used in a finished pharmaceutical product. FDFs, on the other hand, are complete drug products that patients can use. Depending on the needs of their clients, the company can either manufacture the ingredients or the complete drugs.

While IDT does not research any drugs itself, it does perform research on behalf of other companies. With medical accreditations in Australia, the US and Japan, the company can ensure regulatory compliance for its clients, leaving them to worry about other things. Due to its accreditations, pharmaceutical researchers utilising IDT's facilities could also be eligible for an R&D tax rebate of up to 43.5 cents on the dollar or they can avail a 38.5% tax shield on specific activities. This applies to companies worldwide, as long as they are willing to conduct research through IDT in Australia.

Lastly, the company has a license and the know-how to manufacture cannabis products. IDT offers end-to-end manufacturing services for cannabis, meaning that it handles everything from cannabis extraction and purification to quality assurance and shipping.

Shaking things up

As a company that has been on the ASX since 1991, IDT hasn't changed much. It is still basically the same as it was back then. However, that doesn't mean that the company has been resting on its laurels. It has constantly been searching for ways to broaden its portfolio of services. By 2014, it was manufacturing medicines for some of the leading pharmaceutical companies in the world. Its list of clients includes GlaxoSmithKline, Pfizer and Johnson & Johnson. To further broaden the portfolio, the company acquired 23 US generic drugs for a total of \$17m in December 2014 with the intention of finding commercialisation partners for these drugs.

In November 2016, IDT shipped its first proprietary generic product; Temozolomide, a brain cancer drug that acts as an alkylating agent and stops or slows down the growth of cancer cells in the body. By this time, the company had 25 generic drugs in its arsenal and it planned to use them to increase its revenues. Initial sales were high and the company used this momentum to launch Pindolol in the US in May 2017, to treat hypertension. This was the first of the 23 drugs it acquired back in 2014 to launch.

However, the company still struggled to generate a constant revenue stream. Revenue totalled \$15m in FY15, followed by \$7.6m in FY16 and \$9.5m in FY17. To fix this volatility issue, the company began its foray into the medical cannabis space through a partnership with Cann Group, the Melbourne-based cannabis research company. The agreement signed in August 2018 stated that IDT would provide manufacturing facilities for medical cannabis. However, no specifics were mentioned in the announcement. In May 2019, the company finally acquired a medicinal cannabis manufacturing permit and manufactured its first cannabis product in April 2020.

Finding its feet

It seems that all of IDT's efforts seem to be paying off. The company's revenues have stabilised. Revenues totalled \$11.8m in FY19, \$14.1m in FY20 and \$16.9m in FY21. Currently, the company focuses on two core activities: Generic drug production for the US and medicinal cannabis production. What's more important is that in FY21 the company generated an operating profit for the first time since 2009, so it seems that IDT is finally on the right track. Previously, the company had to rely on its clients to request production, which meant inconsistent revenues. Now, the company has its own products and exclusive partnerships to help drive steady revenues. That said, the company is still involved in the manufacturing of drugs for legacy clients.

A four-star stock, but let it cool off a bit

FY21 was not only the first time the company generated a profit since 2009, but it was one impressive profit jump at that. Net Profit After Tax jumped from a loss of \$1.1m during FY20 to a profit of \$2.1m during FY21. As such, it seems that IDT's days of volatile revenue growth are gone and the company has found a way to grow in a sustainable manner. We believe that this makes IDT a four-star investment. However, the stock went on a massive run in August and is now valued at a trailing 12-month EV/Revenue of 9.2x! So, it seems we have missed the boat for now. We'll let this one cool off a bit and revisit it when the valuation is a bit more realistic. Two stars for now.

PATRY'S

Rapid progression

Stocks Down Under rating: ★★★★★

ASX: PAB
Market cap: A\$ 78.6M

52-week range: A\$0.011 / A\$0.063
Share price: A\$ 0.042

Patrys is a Melbourne-based company that is currently developing antibody technologies to treat cancer. The company produces proprietary antibodies that can target cancer cells wherever they are in the body. The company uses Deoxymab 3E10, an antibody that has shown potential in repairing DNA in cancer cells. With three forms of Deoxymab in the preclinical phase, Patrys is edging towards market entry with the help of crucial research partners that include Yale University and Imagion Biosystems (ASX: IBX | [see 10 August 2021](#)).

Share price chart



Source: Tradingview

A revolutionary approach to cancer

Antibodies have been used in various medical treatments for decades. Cancer is an area that has historically not been a focus for antibody therapy, but that is changing rapidly in the 21st century. Deoxymab 3E10 is a unique antibody that shows characteristics not found in most others. 3E10 can penetrate cells, but it can also repair damaged DNA, which makes it ideal for targeting cancer. Most importantly, forms of 3E10 have been shown to cross the blood-brain barrier. The blood-brain barrier is a border of endothelial cells that prevents compounds and chemicals from entering the extracellular fluid of the central nervous system.

Patrys has developed two forms of 3E10, PAT-DX1 and PAT-DX3. There is also an additional variant called PAT-DX1-NP that the company is currently testing. 3E10 is not an extremely active antibody, meaning that its chances of reacting with the DNA in the cells are slim. The two compounds fix this problem, thereby making 3E10 a potentially viable cancer treatment.

The company was founded in 2006 and listed on the ASX in 2007. While Patrys has always focused on antibody therapy, its initial efforts were focused on other compounds. Despite making reasonable efforts to treat melanoma and multiple myeloma, the company began to pivot to 3E10 based antibodies in March 2016. This was done by acquiring Nucleus Therapeutics from Yale University, a company that had developed antibodies that could penetrate cancer cell nuclei.

Let's go to the clinic

Since 2016, Patrys' other candidates have taken a backseat to DX1 and DX3. The company confirmed a lead candidate in April 2017 and began creating in vivo (living organisms) preclinical cancer models. It was granted the US patent for 3E10 in July 2017, followed by patents in China and Japan a year later.

Almost immediately, 3E10 began to show significant results in cancer treatment. After crossing the blood-brain barrier in February 2018, PAT-DX1 targeted and killed brain cancer stem cells in a preclinical study. It also suppressed breast cancer brain metastases. Metastases refer to secondary growth away from the primary tumour. DX1 also seemed to work well in tandem with low-dose radiation therapy, increasing its effects on tumours.

PAT-DX1-NP also crossed the blood-brain barrier in March 2020. DX1-NP essentially links DX1 with nanoparticles loaded with chemotherapy agents or other cancer treatments. It has been shown to localise to both primary tumours and axillary lymph node metastases. This means that DX1-NP could have profound ramifications for breast cancer treatment, which almost always metastasizes towards axillary lymph nodes.

In October 2018, the company confirmed its clinical target indications for DX1 when it decided to focus its efforts on triple-negative breast cancer and glioblastoma. However, the nature of 3E10 allows the company to potentially treat a wide variety of cancers, leading to significant upside value.

Earlier this year, the company established a stable cell line for DX1, meaning that it can now produce large amounts of the drug for the final preclinical studies and the first clinical trials. After completing animal pharmacokinetic studies (that profile a drug's path through the bloodstream and the body), the company stands ready to commence Phase-1 trials.

Market penetration is some time away, but the data has been solid so far

In September 2020, the company added PAT-DX3 to its portfolio. Simply put, DX3 is a humanised full-sized version of DX1, which is dimerised (made up of two simple molecules). As such, DX3 should behave differently from DX1, thereby opening up further opportunities for the company. DX3 crossed the blood-brain barrier in July 2021. After gaining the Australian patent for 3E10 in October 2020, the company is rapidly pushing toward the clinical phase. However, no specific arrangements to commence a clinical trial have been made yet, which means that it will be some time before the company can enter the market.

Patrys also began to collaborate with Imagion Biosystems, the Melbourne-based medical imaging company, in May 2021. The companies plan to use their combined technologies to improve brain tumour imaging and diagnosis.

Patrys raised \$7.3m in April 2021 through an assortment of financing methods to fund its operations. With enough cash to fund its operations for a few more years, we believe that Patrys is a four-star opportunity. The company's portfolio shows immense potential and all the data to date has been solid.

GENETIC TECHNOLOGIES

The bad gene

Stocks Down Under rating: ★★

ASX: GTG
Market cap: A\$ 69.2M

52-week range: A\$0.006 / A\$0.014
Share price: A\$ 0.008

Genetic Technologies is a Melbourne-based molecular diagnostics company. It operates in Australia and the US, providing tests for breast and colorectal cancer. The company uses an assortment of indicators to predict the chances of developing certain cancers within a specific timeframe. The company also conducts genetic testing (medical, animal, forensic and plants). With numerous research collaborations with universities, the company is continuously researching ways to innovate cancer diagnostics. Sadly, it has all been to no avail so far.

Share price chart



Source: Tradingview

Genetic testing, with some patent trolling on the side

Throughout its existence since 1989, Genetic Technologies has developed different testing methods and technologies. It has shunned those without a large enough addressable market and continued with those that could turn out to be lucrative. One of the company's core businesses is genetic testing, which involves biochemical analysis to identify changes in DNA sequence and chromosome structure. While it has many uses, it is extensively used in medical research and the company provides four different types of genetic testing.

While headquartered in Australia, Genetic Technologies has an office in the US from where it coordinates its US operations. It also partners with and provides its genetic testing technology to various laboratory operators across the world. Most of the company's operations are in the US and Australia, while it also has a minor presence in Europe and Asia.

The company has been licensing its genetic testing technology and patents to various biotechnology companies for decades. The licensees then make use of the patents to conduct research and develop drugs. In FY11, after the company licensed its technologies to numerous partners and settled multiple patent infringement suits in its favour, Genetic Technologies generated its maiden profit of \$0.9m. Back in the early

2010s, the company had a broad suite of patents. It wasn't afraid to file suits against companies that were allegedly breaching them. After settling with Navigenics in June 2011, the US-based genetic testing company, for patent infringement regarding the company's non-coding DNA technologies, Genetic Technologies was to file multiple suits in the years to come. Usually, counterparties settled and then licensed the technology due to its superiority over other genetic tests.

Genes can evolve

Genetic Technologies realised, of course, that it could not endlessly continue to enforce its patents. As so the company began to leverage its expertise in developing tests to, well, develop more tests. It began to work on BREVAGen, a test that uses genetic testing to determine the risk of non-familial breast cancer among women. The first patient sample was processed in May 2011 and BREVAGen was launched in the US a month later. The main advantage of BREVAGen is that it is the first test that uses genetics to gauge the statistical likelihood of the patient developing breast cancer, as opposed to a statistical risk score.

BREVAGen was quickly approved in numerous states in the US, including Florida and California. The number of tests conducted increased all the way to October 2014, which is when BREVAGenplus was launched. The plus version combined genetic testing with clinical risk factors to determine the chances of the patient developing breast cancer within the next five years and in their lifetime.

In March 2015, the company raised \$18.6m to expand its genetic testing capabilities in the US, fund the marketing of BREVAGenplus and explore new opportunities. In November 2016, it began to develop and manufacture a colorectal cancer testing kit, similar to BREVAGenplus. Both of the company's cancer testing kits were eventually renamed to GeneType in May 2019. Genetic Technologies continues to offer both of those products today.

All to no avail

Despite its massive advances and proprietary technologies, Genetic Technologies has been unable to generate a profit in recent years. In fact, the company's revenues have dried up to the point of nonexistence, going from \$518,000 in FY17 to a mere \$9,000 in FY20. The company has tried everything during this time, from investing in a medical blockchain company in 2018 to developing a COVID risk test in 2020. The company has also raised capital more times than we can count in the same window.

However, all of these ventures have failed to show results. While revenues for FY21 are just over \$100,000 and the company has over \$20m in cash, we fail to see its efforts paying off. Although the company claims that GeneType is a new product, it is simply an updated form of BREVAGen. This product has been around since 2014 and if it has failed to generate in seven years, we highly doubt it will catch on anytime soon. As such, we think Genetic Technologies has little upside potential with profitability seemingly a distant dream. Despite its massive cash reserves, if revenues prove to be elusive, the company will have to raise capital again in 3 years. So, it's 2 stars from us.

Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia

Pitt Street Research Pty Ltd provides issuer-sponsored research for Small & Mid Cap companies and is founded on more than 40 years of combined experience researching companies in a range of different sectors.

You are receiving this email because you subscribed to our Stocks Down Under newsletter.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission from Pitt Street Research Ltd Pty. All intellectual property relating to the Content vests with Pitt Street Research unless otherwise noted.

Stocks Down Under (Pitt Street Research AFSL 1265112) provides actionable investment ideas on ASX-listed stocks. The Content has been prepared for general information purposes only and is not (and cannot be construed or relied upon as) personal advice nor as an offer to buy/sell/subscribe to any of the financial products mentioned herein. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of the Content. Financial products are complex, entail risk of loss, may rise and fall, and are impacted by a range of market and economic factors, and you should always obtain professional advice to ensure trading or investing in such products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document.

