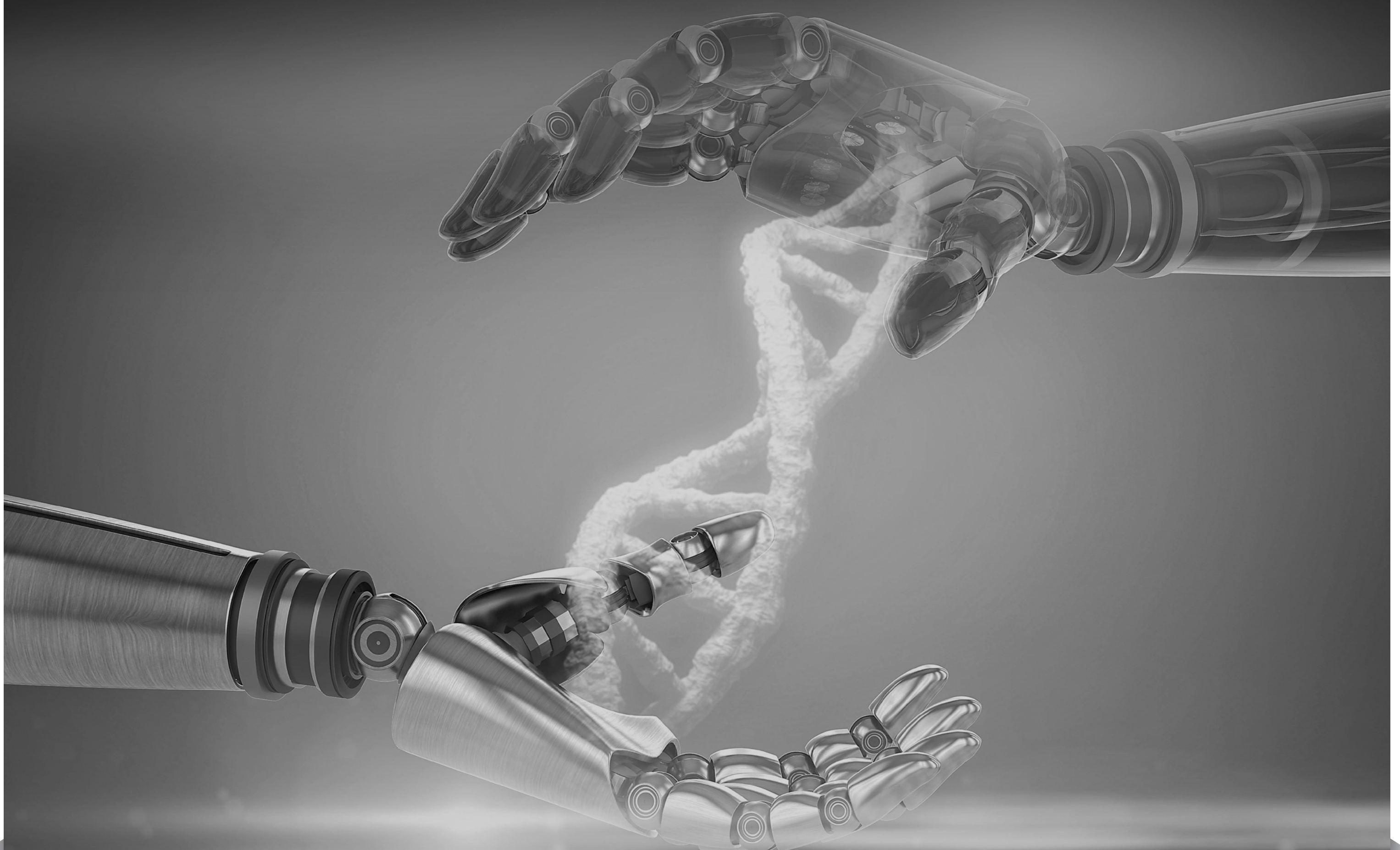
STOCKS DOWN UNDER

19 OCTOBER 2021

Emerging Stocks Down Under

“Risk comes from not knowing what you’re doing.”

- Warren Buffett (b. 1930), American investor



CHIMERIC THERAPEUTICS

Put this one in your basket

ADSLOT

A hopeless exercise

MEMPHASYS

Hype-train derailed

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Stocks Down Under rating: ★★★★

ASX: CHM
Market cap: A$95M

52-week range: A$0.24 / A$0.44
Share price: A$0.31

Chimeric Therapeutics is a Melbourne-based biotechnology company currently developing T-cell therapy drugs to combat cancer. Despite being extremely young (incorporated in 2020), the company recently entered the clinical stage and is rapidly developing its CLTX-CAR T-cell therapies that could potentially be used to treat a variety of cancers. With its successful IPO, the company may be able to commence further trials to test its therapies against various cancers.

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52-week range: A$0.024 / A$0.036
Share price: A$0.028

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Share price chart

Source: Tradingview

The next breakthrough in cancer research?

T-cells occur naturally in the human body. Their main job is to protect the body from cancer by attaching themselves to and destroying cancerous cells. However, the cells are not as effective as we would like them to be. Cancer cells are masters at deceiving the body's natural defence mechanisms.

In T-cell therapy, the T-cells are extracted from the blood and genetically engineered to make them stronger against cancer. Once the cells can destroy the tumour, they are replicated until they are large enough to fight the tumour adequately. Once the cells are injected back into the body, they continue to multiply (like other cells) and move through the body to destroy cancer cells.

CAR T is a version of T-cell therapy that allows the therapy to be exquisitely targeted. For the right patient CAR T is so good, kilograms of tumour can be destroyed fairly quickly. Good CAR T stories trade for billions on Nasdaq. And Chimeric Therapeutics may have one of the Next Big Things in this space.

Chimeric's technology is called 'CLTX-CAR T', where chlorotoxin, a peptide from scorpion venom, is used to better target the T-cell therapy to the cancer. The technology was initially developed by scientists at the City of Hope Medical Centre in Los Angeles. Chimeric acquired the license to develop and distribute the treatment worldwide when it was incorporated in 2020. Medical professionals can engineer CLTX to bind to tumours selectively and CLTX peptide is non-toxic to healthy cells, which means it is perfect as a potential cancer treatment.

So far, so good

Chimeric decided to conduct an IPO less than a year after its inception. When the company licensed CLTX-CAR T from the City of Hope, the therapy was ready for clinical trials. As such, the company had already begun Phase I trials by the time the IPO took place. During Phase I, a small number of patients participate in the therapy to determine the appropriate safe dosage to ensure no short-term adverse side effects.

The company raised $35m at $0.20 per share and valued the company at slightly over $66m. However, the company's value shot up to over $100m immediately after trading began due to the progress achieved in the trials. The price has hovered around the $0.30 mark since the IPO, with a low of $0.25 and a high of $0.365.

Preclinical trials showed potent anti-tumour activity against glioblastoma, an extremely aggressive cancer found in the brain and the spinal cord. The money from the IPO would be used to conduct the Phase I trial at the City of Hope and develop other novel therapies using CLTX-CAR T.

The first patient in the glioblastoma trial was dosed in late 2020 and the dosing for the first patient cohort (4 patients) was completed by March 2021. No toxicities were found on any of the patients during the follow-up period of 28 days. The trial aims to dose between 18 to 36 patients across four levels, increasing the dose slightly at each level. Dosing for the second cohort was initiated in May.

Clearance to speed up

The expected timeframe of the Phase I trial is twenty-four months, which means that the trials should be complete by late 2022. However, the company may be able to speed up the trial and the initiation of Phase II if everything goes to plan during the first phase. In August 2021, the company received an Investigational New Drug (IND) clearance from the FDA for the use of CLTX-CAR T in glioblastoma treatment.

This clearance allows the company to open new Phase I trial sites that could speed up its completion. More importantly, however, the IND would allow the company to explore Phase I basket trial possibilities. What the heck is a 'basket trial'? we hear you ask. 'Basket' is not a newly discovered cancer. The term 'basket' is used here to describe a trial where the therapy is evaluated on multiple diseases that have common molecular alternations.

As of 30 June 2021, Chimeric had $22.4m in cash. While the company does have to pay consideration to the City of Hope for the licensing of CLTX-CAR T, it has no other significant liabilities. The total liability stood at $9.93m at the end of 1HY21.

We believe the company has ample cash to survive until the completion of Phase I trials. While the glioblastoma trials are progressing smoothly, we are particularly excited about the basket trial as it could reveal multiple applications for CAR T therapies that could be progressed quickly. The first generation of CAR T developers got sold for a lot of money – Kite Pharma to Gilead Sciences in 2017 for US$11.9bn, Juno Therapeutics by Celgene for $9bn in 2018.

At the moment Chimeric Therapeutics is going for a fraction of that, but is quickly moving towards a point where we can get a sense of the upside. So, four stars from us.

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An ecosystem of solutions

Adslot has been around since 1975 and has been trading on the ASX since 1987. Originally called Webfirm, it has existed in its modern form since 2001 when Webfirm began providing digital marketing and web-based solutions.

Adslot was initially launched to directly link advertisers and publishers to facilitate the trade of premium advertising displays. By cutting out the middlemen, both parties could benefit from lower costs and more significant margins. Adslot quickly became the company's main product and the name of the company was changed to Adslot in December 2012.

In 2013, the company acquired Facilitate Digital Holdings, another digital media company that developed workflow tools. Facilitate's main product was Symphony, which allowed media agencies to automate their workflow and better manage their data. Symphony was highly customizable as per clients' specifications. More importantly, it could link with numerous external ad tools and plugins to enhance its capability.

The company was able to develop a system where Symphony and Adslot complemented each other. Agencies using Symphony could have direct access to publishers and purchase media slots exceptionally quickly and cheaply.

Nowadays, Adslot and Symphony are its main products, with Webfirm still offering its services to brands and agencies worldwide. Webfirm has evolved to provide a host of services from website design to Search Engine Optimization.

The company has clients all over the world and operates on every single continent except Antarctica through six offices, two of which are in Australia. The worldwide presence theoretically allows the company to access multiple markets and growth opportunities. However, we are sceptical the company can actually tap in to the opportunities.

Large footprint and even larger losses

Although Adslot has had a worldwide presence ever since its acquisition of Facilitate, generating a profit (or even getting close to that) has been a struggle. The best example of this is the year 2016, where the company had to raise capital twice. In April, the company raised $4.6m at $0.08 per share to support product development and explore business opportunities through an institutional placement.

In September, the company raised $18m through a mixture of an entitlement offer and an institutional placement at $0.11 per share. The funds were to be used to expand the software engineering team and for the global deployment of the platform following a deal with GroupM, the US-based media investment company.

Revenue from the deal began to flow in the middle of FY17. Still, it did not have a significant impact on the company's financial performance. Net sales were $8.2m for FY17, only slightly up from $7.7m the year prior. More importantly, the company lost $8.6m in FY17, compared to $8.4m in FY16.

Still, the company made a lot of significant changes in FY17. It launched video advertising via Symphony, allowing advertisers to purchase video inventory from the platform directly. It also launched "Guaranteed Audience," a feature that allowed advertisers to target specific audiences and make sure that their content was only seen by those most likely to need it.

Despite all this, revenue growth was not significant as a result of which the company initiated a strategic review. The results (announced February 2018) were essentially to reduce the cost and narrow the focus on short-term gains.

In August 2018, the company raised a further $3.5m at $0.025 per share to once again support product development and the deployment of Symphony to new markets. Following this were two placements worth a total of $10.4m in 2019 at the same price.

Consistent failure

We believe the problem with the Adslot is obvious: There doesn't seem to be enough demand for the company's key product. While Adslot claims to help advertisers and publishers save money, it looks like these prospects are more than happy to do without Adslot. The company just can't seem to sell its services.

Apart from FY19 and FY21, the company has had a net margin of less than -100%. This means that the company has lost more money than it has generated through sales.

While revenues rose in FY19 from $7m to $9.84m, they have been declining since then. FY20 revenues were $9.79m and then fell to $8.2m in FY21. If the company were to grow at a slow pace, we might be able to make a case for it to eventually become self-sustaining. However, Adslot's financial results are all over the place, giving us no reason to expect sustained growth in the future.

In December 2020, the company had to raise a further $4.0m at $0.029 per share to fund its operations. Even though Adslot had over $6m in cash at the end of FY21, we wouldn't be surprised if it needs to raise capital again in FY22, 23, and… Well, you get the picture.

In our opinion, Adslot is a two-star investment that has failed to develop a product that can entice enough of its potential clients to use it. While that could change at some point in the future, the company's short-term prospects are dire, in our view. Steer clear.

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Share price chart

Source: Tradingview

Iterating its proprietary technology

Memphasys was founded as NuSep Holdings Limited in 2006 and listed on the ASX in 2007. Initially, the company developed products for the life sciences industry, ranging from therapeutic plasma to the In Vitro Fertilization (IVF) clinical market. The company's prototype MF10 instrument was used to separate red blood cells from human buffy coat. Yes, there is such a thing as 'buffy coat' – it's the fraction of a blood sample where most of the white blood cells and platelets are found after the sample is centrifuged. MF10 was great but the company realized that its instrument could have much more significant implications, especially in the male infertility space.

The CDC estimates that between 9-10% of all males experience fertility problems, with the numbers being roughly consistent across the world. Using the same proprietary technology (known as Gradiflow) that was the basis of MF10, the company began developing a device that many publications referred to as the 'Sperm Sorter.' The device, officially named CS10, was introduced in 2011.

Despite being a breakthrough device, there were no commercial applications that could utilize CS10. While CS10 had been successfully used for live human births in infertile couples, the device was not viable for IVF clinics. Eventually, the company reworked the CS10 into a system which it called 'Felix'.

The significant advantage of the Felix system over comparable IVF methods is that it does not damage sperm DNA in any way. This leads to a higher pregnancy rate and healthier offspring. The Australian diagnostics company Monash IVF tested 68 in-vitro semen samples and concluded that Felix was clinically beneficial.

Metamorphosis to Memphasys

In July 2016, the company changed its name to Memphasys to emphasize its new direction. The company had a working prototype of Felix by this point and it began to divest out of other businesses. In April 2017, Memphasys divested its gels business, placing all of its eggs in the Felix basket.

When it comes to fertilizing the eggs, Felix uses a sealed cartridge concept that allows for minimal damage to the sperm during separation. The company believes that Felix will replace all alternative IVF methods due to its simplicity, efficiency and speed.

After changing its name, Memphasys began to engineer Felix through a partnership with Hydrix, the Australian engineering and manufacturing company. By July 2017, the company had two working cartridges that could be used to automate the sperm selection process. In November 2017, the company raised $3.75m through various methods to accelerate the development of Felix.

The company spent 2018 optimizing the device and ensuring that there were no errors associated with its separation method. The company planned to have the Felix device completed and ready for use around March 2019. True to their word, preproduction devices were prepared in April 2019. Less than three months later, the company had signed agreements with numerous manufacturers to build and assemble the device.

In July 2019, Memphasys raised another $4.2m at $0.023 per share. The company aimed to launch the Felix device commercially in the second half of 2020 and raised the money to support operations until then.

A slow rollout

December 2019 the company had sent the device to Key Opinion Leaders in various markets. Think of them as 'influencers', but for serious medicine rather than for the light-hearted stuff people care about on TikTok and Instagram. During this time, the company conducted verification and validation (V&V) testing to ensure regulatory approval for entering their initial target markets. Despite suffering setbacks from COVID-19, Memphasys was able to enter the final stages of V&V in the second half of 2020.

However, despite all the significant elements of the company's commercialization strategy falling into place, the company has still not launched the Felix device at the time of writing and instead suffered a major setback.

In March 2021, the company reported an engineering flaw in its device that reduced its efficiency. This has delayed Felix's commercialization, which is a huge blow to the company. Although the company reported that fixing the flaw would improve the device's performance, the new date for the expected completion of V&V was the quarter ending September 2021. Only a successful V&V result would allow the company to go public with Felix.

As a consequence, Memphasys has also had to renege on its promise to use the proceeds from the previous capital raising until the commercialization of Felix. In May, the company raised $3m through the issuance of convertible notes and options. The company has a viable product that effectively improves upon existing IVF devices. However, we are apprehensive about when the company will be able to launch Felix and how long it will take to arrive in highly regulated markets, like the US.

As such, we think Memphasys is a three-star investment in its current state, with an obvious end goal, but with no indication of when it might be able to achieve that.

Pitt Street Research Pty Ltd

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