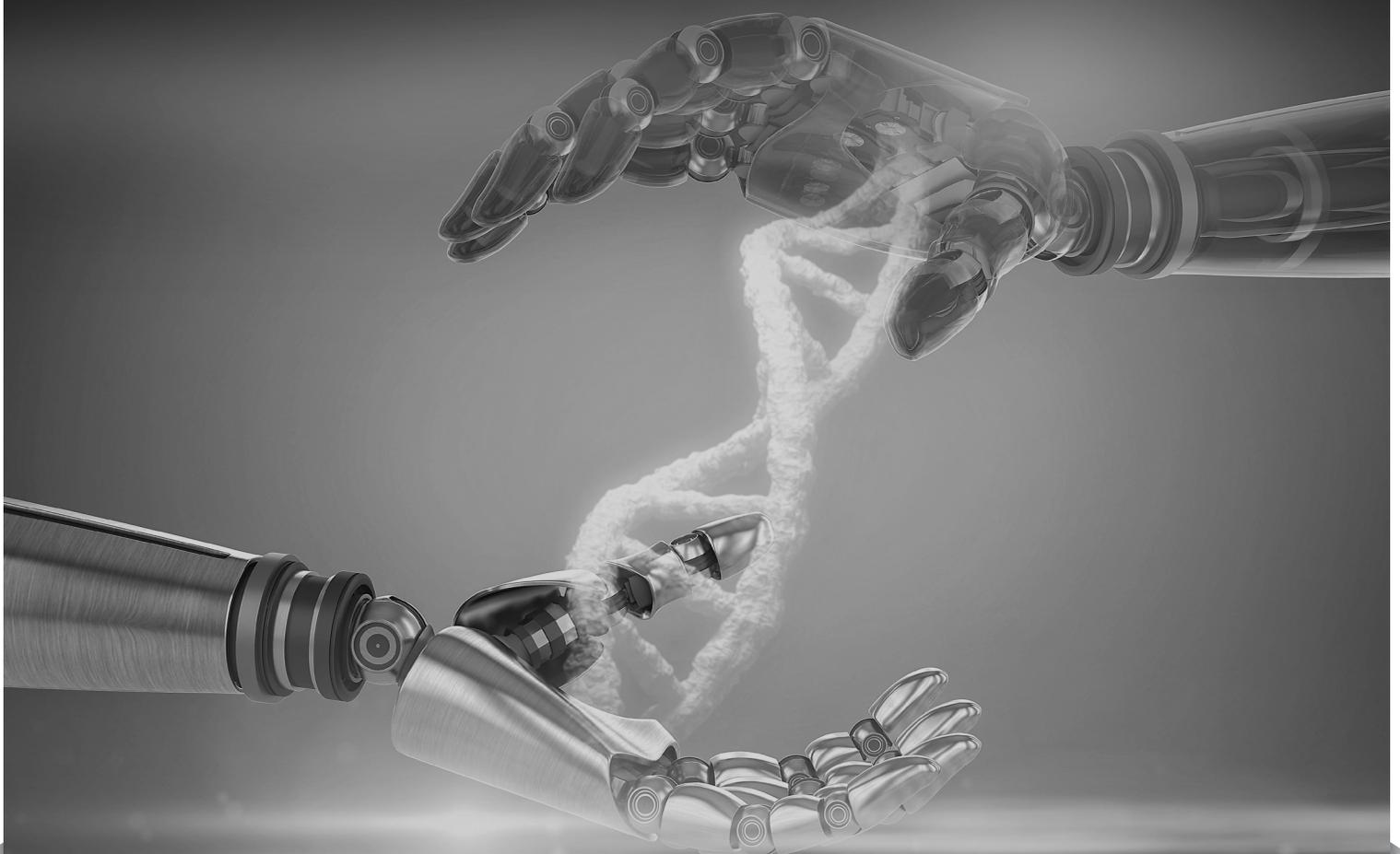




Emerging Stocks Down Under

🗨️ *It was the part of a good shepherd to shear his flock, not skin it.* 🗨️

- Tiberius Caesar Augustus (42 BCE – 37 CE), Second Ancient Roman Emperor



TESSERENT

The roll up continues

ANTISENSE THERAPEUTICS

Phase 2/3 here we
come

TALI DIGITAL

A digital solution to
attention disorders

TESSERENT

The roll up continues

Stocks Down Under rating: ★★★★★

ASX: TNT
Market cap: A\$230M

52-week range: A\$0.185 / A\$0.44
Share price: A\$0.185

Cyber security firm Tesseract is on a mission to strongly expand the security offerings available on its Cyber 360 platform. It has been acquiring cyber security companies on a regular basis and just completed a capital raise to fund all those acquisitions. But the share price has trended down since we last wrote about TNT. We believe the time has come for the company to demonstrate that it can generate superior margins from all these acquisitions as it extracts synergies through proper integration. And we wouldn't mind a bit more transparency on the performance of all these companies in the twelve months following the acquisitions.

[READ MORE](#)

ANTISENSE THERAPEUTICS

Phase 2/3 here we come

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ASX: ANP
Market cap: A\$138M

52-week range: A\$0.091 / A\$0.35
Share price: A\$0.225

Our [3 August 2021](#) call on Antisense Therapeutics looked pretty good not long after we made it at \$0.22. In October the stock spiked higher, reaching \$0.335 by 25 October. That spike allowed Antisense to raise \$20m at \$0.24 in a placement, with another \$16.8m anticipated via a 1:9.4 rights issue at the same price. This gives Antisense enough money to get started on a pivotal trial of its lead ATL1102 drug in Duchenne Muscular Dystrophy (DMD). If this study works, Antisense could have an approved blockbuster drug on the market by 2025.

[READ MORE](#)

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Share price chart



Source: Tradingview

We wrote about Tesseract as recently as [February 2021](#), so we won't dwell too much on what the company does for a living. In a nutshell, TNT provides a wide range of Cyber security services to Australian government agencies at the Federal, State and Local level. Additionally, the company works for a range of clients in various sectors, including energy utilities and banks. And this includes some of the largest companies in Australia. TNT works for 43 out of the S&P/ASX Top 100 companies. Pretty impressive.

The services themselves are everything you'd expect from a cyber security company, i.e. network & cloud security, managed services & monitoring, forensics & incident response etc. TNT also offers consulting and education services. To that end, the company started up Tesseract Academy to address the skills shortages in this industry. The academy trains up both the company's own staff as well as its customers' staff. Right now, there's around 26,000 people working in cyber security in Australia, but the expectation is that within the next two years another 7,000 will be needed. So, there should be plenty of opportunities for Tesseract Academy.

The company has also recently set up Tesseract Innovation, aimed at expanding the companies Intellectual Property (IP) around cyber security. This unit will be investing in developing and investing in cyber security technologies and products. Additionally, the innovation unit will also be investing in companies that are developing security platforms and tools that TNT can benefit from.

The roll up continues

As we discussed in our February report on TNT, the company is in the process of expanding its services offering through development of its own products and services as well as through the acquisition of small cyber security companies that offer products and services that can be added to Cyber 360, TNT's suite of services available to Australian and New Zealand customers.

In April, TNT completed the acquisition of managed security services provider Secure Logic, which adds \$9m to the run rate revenue line and \$4.2m in earnings. And in May, TNT acquired two 25% stakes, in Trustgrid and Attackbound. The former is a provider of digital trust services using blockchain technology, while the latter is a cyber threat intelligence platform. Services of both companies will be integrated in Cyber 360. Both equity stakes were purchased using a 50/50 mix of cash and TNT scrip for a total value per stake of \$3m.

In July, TNT acquired a 7% stake in Daltrey, a biometric security firm, for \$600,000 and \$1.1m in additional payments depending on certain performance metrics. Daltrey's services will also be added to Cyber 360, but TNT's near-term goal is to sell these services into Federal organisations in Canberra.

Lastly, in August TNT acquired Loop Secure, a managed security services company that generated \$21m in revenues and \$2.25m in EBITDA in FY21. TNT paid \$9m in cash and 15.9m shares.

To fund all these acquisitions, TNT raised \$25m at \$0.21 per share in September, which resulted in 11.1% dilution of existing shareholders.

We need more transparency

When companies are on the acquisition path and acquire a string of companies in a short period of time, we always start to be worried that post-acquisition integration may become an afterthought. The management team is so busy scouring the market for the next acquisition target that integrating the new family members doesn't always seem to have the same priority.

In fact, we have seen companies go belly up due to substantial write offs of acquisitions that did not perform due to lack of attention from the new owners and lack of integration into the organisation. When that happens, the synergies that were supposed to come through won't materialise and the takeover prices turn out to have been too high. As a result, the acquiring company will need to take impairment charges that hurt its equity on the balance sheet. If that happens multiple times, banks become nervous.

We're not saying this is happening at TNT, but we would like more insight into how all these acquired companies are performing under TNT's wing. A few case studies in the company's most recent Investor Presentation won't do the trick.

Attractively valued

Following the share price decline since February, TNT is currently trading at EV/EBITDA multiples of 11.7x for FY22 and 9x for FY23. We believe that is pretty good value for a stock that is expected to grow its EBITDA by 30% in FY23. And now that TNT is EBITDA positive, per January 2021, there should be more room to fund its growth internally, rather than through capital raises. In other words, we should see less dilution going forward as the company builds out its offering on Cyber 360. Four stars from us.

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Share price chart



Source: Tradingview

Thank you Ionis

For over twenty years Antisense Therapeutics has beavered away looking to develop a successful drug based on antisense technology. Anti what? Okay, stick with us. It's actually simple. You have genes that produce proteins that cause disease, but you block those genes with strings of RNA that are 'antisense' to the 'sense' of the gene. All you need is to chemically stabilise the nucleotides in your drug so that they don't get chopped up before the drug can work its antisense magic.

For a long time, knowledgeable people said this treatment approach was science fiction. Then it became reality thanks to Ionis Pharmaceuticals (Nasdaq: IONS) and a drug called Kynamro, FDA approved in 2013 for the treatment of a rare disease of high cholesterol called homozygous familial hypercholesterolemia. That drug proved that antisense was real and a later drug from 2016, called Spinraza for Spinal Muscular Atrophy, proved that antisense could create blockbusters. All of which was good news for Antisense Therapeutics because its technology was licensed from Ionis.

The 2018 brainwave at Antisense

Now fast forward in time. It's 2018 and Antisense Therapeutics has yet to hit the big time. It has come close, with a successful Phase IIa study in Multiple Sclerosis, but that programme got held up by FDA on dosing

issues. The company then has a brainwave: There's now a new drug for Duchenne Muscular Dystrophy, the genetic disease that affects only boys for which the late American entertainer Jerry Lewis used to raise money in those famous telethons. The new drug, FDA approved in 2016, had been developed by another American biotech called Sarepta Therapeutics (Nasdaq: SRPT) and uses a version of antisense technology. But that drug can only allow the boys with Duchenne to make the dystrophin protein we all need for muscle formation, but which these poor kids lack. It can't help deal with the excessive inflammation boys with Duchenne are afflicted with.

Why not, reasoned Antisense, develop an antisense drug to solve that problem? The company already had the drug, since its ATL1102 antisense construct, the one previously tried out in MS, could target the VLA-4 receptor that allowed lymphocytes to migrate into tissue. And there was evidence that boys with DMD had more lymphocytes that were high expressing of CD49d, which is one half of VLA-4. Re-indicating ATL1102 into Duchenne inflammation would represent a valuable Orphan drug opportunity that could move quickly and would potentially replace nasty corticosteroid treatment.

A drug that works

By May 2020 Antisense had the Phase 2 evidence. It had administered ATL1102 subcutaneously once per week for 24 weeks in nine non-ambulatory boys with Duchenne. Those boys had improvements in motor function and strength, with the trial's primary endpoint met and its secondary endpoints exceeded. That was good enough for the FDA to give ATL1102 a Rare Paediatric Disease Designation for DMD in September 2020. And you know what that means ... Antisense Therapeutics now is potentially eligible for one of those juicy Priority Review Vouchers they can either use or sell for, potentially, a lot of money. Orphan Drug Designation followed - from the FDA in October 2020 and from the EMA in Europe in December 2020.

Which brings us to the exciting position that Antisense Therapeutics now finds itself in. As we write, the company is getting ready to run a Phase 2/3 study in DMD where that single study, in about 108 boys with Duchenne, gets the drug approved in the EU. And if it works in Europe, US approval may not be far behind.

Big upside

There are probably 26,000 boys in the EU and another 18,000 in the US that can benefit from ATL1102, and at the kind of pricing Antisense can likely receive for the drug, it can be a blockbuster. And the recent funding we noted above gets the trial funded to the point where a planned 'futility analysis' – something that is routine in all late-stage clinical studies – can tell us if it seems to be working. At that point options attached to the recent funding can likely kick in and fund the rest of the study to Phase 2/3 results. If ATL1102 can improve upper limb performance in the treated boys with statistical significance on a well-understood measure, this drug is then approvable, although Antisense run an 'open label extension' on the 2/3 and the EMA wants to see some data from that as part of its review process. We think Antisense can get to this point by about 2025.

What's Antisense worth should this study work? We've seen US companies go to valuations of more than a billion US dollars with one successful Orphan Drug. At the moment Antisense Therapeutics goes for only A\$138m. And that's with the recently raised case. And ATL1102 in DMD is only the lead programme for this company. Ahead of the Phase 2/3 getting started, this stock remains four stars.

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Share price chart



Source: Tradingview

Paying attention to a global concern

If you've had reason to worry about that 'attention deficit' stuff you hear about with kids in recent years, this story will likely warm your heart a little. Tali Digital is developing digital tools where game-based technology is used to diagnose and treat attention deficit symptoms in children with conditions including ASD (Autism Spectrum Disorder), ADHD (Attention Deficit Hyperactivity Disorder) and Non-Specific Intellectual Disability (NSID). While these are distinct neurodevelopmental conditions, they share some overlap in difficulties relating to focus, memory and attention. Attention-related disorders and related learning disabilities affect 136 million children globally and cost Australians \$20bn per year, leading to a greater need for adoption of cognitive assessment tools.

At present, Tali Digital has three digital programs designed to assess and strengthen attention in early childhood. 'Tali Detect' screens for low attention behaviours (sometimes an indicator of a disorder) while 'Tali Train' is a cognitive training program designed to improve children's selective attention (selecting relevant over irrelevant information) and other numeracy skills. Clinical evidence suggests Tali Train creates sustained benefits in attention after a five-week period from recorded portal data, which is accessible by parents and schools.

The company is also planning the development of 'Tali Maintain', a 12-month booster program. While still in its early stages recruitment-wise, the success of treatment programs like these might offer an interesting alternative to psychostimulant medication, which remains the most common intervention, even in children, and has proved controversial.

Earlier investment, greater return

As the platform targets children aged 3 to 8, the strategy of using game technology to help children improve focus and learning, avoid distraction and prevent impulsive behaviour, is a fun way to stage an early intervention. But the science which underpins this strategy is as fascinating as it is complex.

While a 'deficit' in attention may differ from child to child, the purpose of Tali Train is to strengthen those attention skills at a period of peak neuroplasticity, which refers to the brain's ability to form new neural pathways and connections throughout someone's lifespan. As the younger brain is more 'plastic' and constantly changing, the ability to enhance attention and other forms of learning early on is an important part of facilitating long-term management and improving quality of life. That's especially true when considering how disruptive and expensive long-term treatment of poorly managed disorders like ADHD can be.

With the prevalence of ASD, ADHD and other learning and developmental disorders increasing, in part due to greater awareness, Tali Digital is addressing a global concern with a solid market in cognitive assessment and treatment, which is expected to grow to US\$8.1bn (32% growth) next year. As the company continues its rollout in Australia, the US, the UK and now India and Japan, the emphasis is on both the affordability and accessibility of the Tali programs. Tali Digital has established educational and media partnerships with the likes of Mindaroo (Andrew Forrest's private foundation) and Google to distribute the programs in schools and at home – particularly useful at a time when the pandemic is highlighting attention issues further. As the software works on a B2B/B2C model, revenue growth, currently at a start-up level, will depend on how fast the number of children taking part will grow. The company estimated that 1 million kids will use the Tali platform by 2023, but that would only be 1% of the total global market.

Digital therapeutics are catching on

In an effort to increase the number of users, Tali Digital spent the first half of CY21 completing its early Tali release program into the Australian education system, focused on 30 schools. Originally aimed to recruit 1,000 students, the program now has 1,613 Tali Detect assessments and 416 Tali Train completions.

Despite disruptions to travel, the company has also made progress with its partnership with The Times Group (including a \$2m investment) to aid marketing in India and was granted a patent for its intellectual property in Japan. While India is a key market by numbers, Japan presents a favourable market opportunity because of its largely non-pharmaceutical approach to the treatment of ADHD.

While Tali's platform is not a replacement in lieu of diagnosis or a critique of pharmaceutical treatment, it could offer significant advantages for the children it is designed to help. But it will likely also lead to greater awareness among parents and schools, reducing pressure on educational and medical systems further down the line.

Both Tali Detect and Tali Train will likely need further studies to reach clinical standards, but in the Era of Lockdown we believe this company is primed to raise awareness of its platform as neurodiversity, learning difficulties and other attention deficits become better understood. There is also the possibility of transferring these treatments to adult and elderly populations at a later stage.

With the company only scratching the surface of what we can achieve, but having achieved so much already, this one is four stars for us. But be aware, with a cash balance of \$2.2m at the end of the September 2021, Tali Digital claims it has approximately four quarters of cash, but there is still the possibility it will need to raise cash sooner.

Pitt Street Research Pty Ltd

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