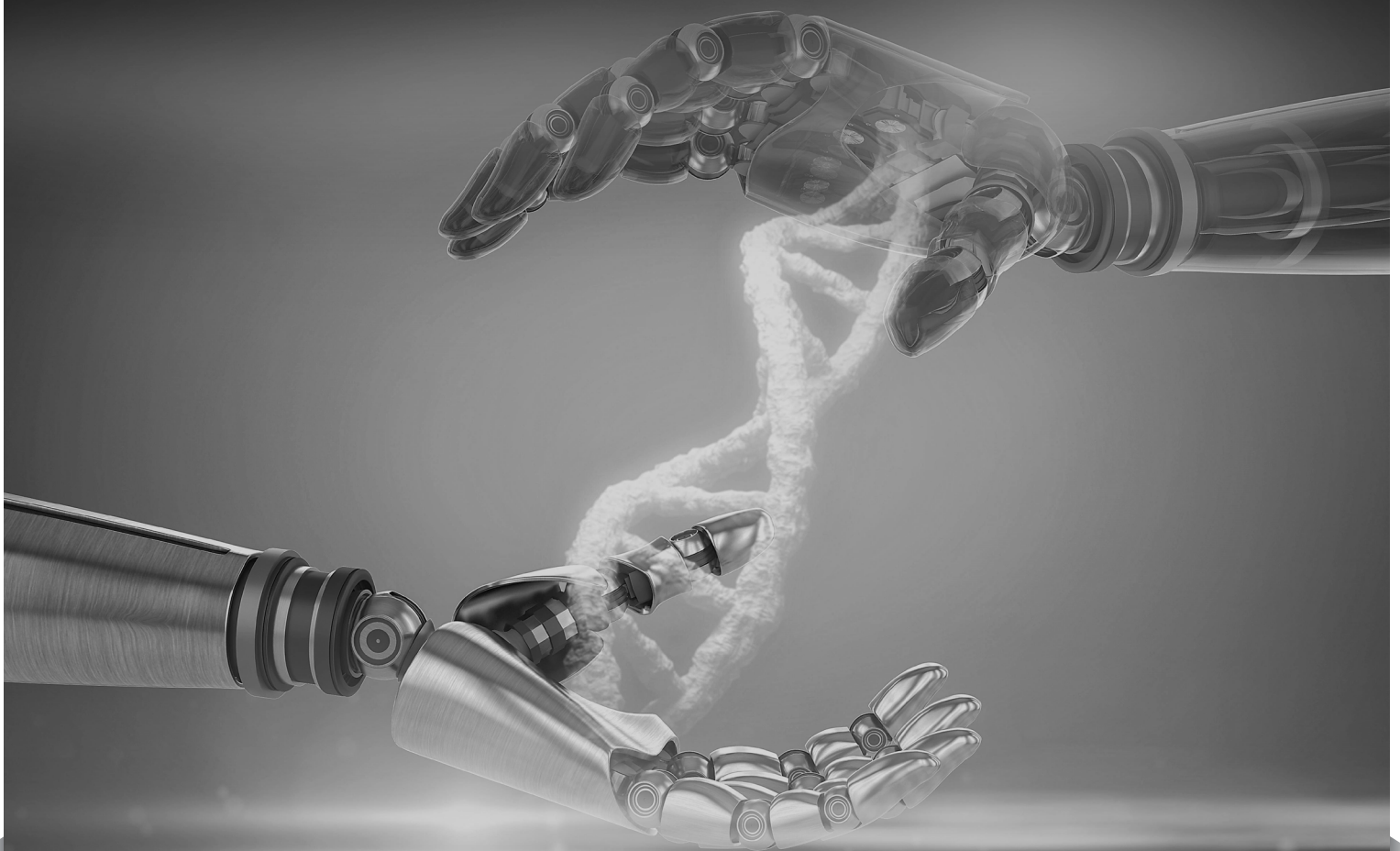




Emerging Stocks Down Under

🗨️ *The first step towards getting somewhere is to decide you're not going to stay where you are.* 🗨️

- John Pierpont Morgan (1837 - 1913), American financier and banker



PHARMAXIS

It's all about the news flow

8COMMON

Waiting on contract wins

PEPPERMINT INNOVATION

Tough times ahead

PHARMAXIS

It's all about the news flow

Stocks Down Under rating: ★★☆☆

ASX: PXS
Market cap: A\$65.9M

52-week range: A\$0.071 / A\$0.15
Share price: A\$0.12

Headquartered in the Northern Sydney suburb of Frenchs Forest, Pharmaxis is an early-stage drug developer at its core. The thing that sets Pharmaxis apart from other companies in this stage of development is the two products approved and making their way through global distribution channels. To be clear, Pharmaxis is not yet profitable, but it is on its way after these two products saw strong approval and distribution growth in FY21. It seems likely shareholders will be in for further dilution, though, despite the 1 one year of financial runway the company had as of 30 June 2021. Yet, at its current valuation, we believe the rewards far outweigh the risk.

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8COMMON

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ASX: 8CO
Market cap: A\$39.9M

52-week range: A\$0.11 / A\$0.24
Share price: A\$0.18

At its core, Sydney based 8Common is a software company. It develops solutions for enterprises, governments and non-profits. However, instead of designing customised solutions for each client, it offers two SaaS (Software as a Service) products: Expense8 and CardHero. Upon installation, these software services are then customised slightly as per the request of each client. CardHero and Expense8 have a total userbase of over 150,000. The company believes that it has considerable room to grow based on its SaaS model and the number of significant client wins in 2021 suggest it may be right.

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Share price: A\$0.013

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Share price chart



Source: Tradingview

A tale of two divisions

Pharmaxis has a research and development division and two already approved products it sells through its respiratory division, i.e. Bronchitol and Aridol. Bronchitol is a treatment for cystic fibrosis and is approved for sale in Europe, the United States, Australia and Russia.

Cystic Fibrosis (CF) is a rather dangerous and inherited condition that affects the cells that produce mucus, sweat and digestive juices. Untreated, it can cause severe damage to the lungs, digestive system and other organs. However, there is currently no cure and treatment does not cause it to go dormant, but it does significantly increase a patient's quality and length of life. Pharmaxis' Aridol is a bronchial challenge test for diagnosing and assessing asthma and is approved in Europe, Australia, the United States, Canada and Asia.

Pharmaxis has decided to forego the usual commercialisation route that many Australian-based drug and medical product developers take. Instead of licencing out the Intellectual Property (IP), the company has built a production and testing facility in Sydney. It uses this facility to manufacture Bronchitol and Aridol, with Bronchitol having received US Food and Drug Administration (FDA) approval in October 2020 and Aridol in August 2018. In FY21, these two products generated combined revenues of \$22.7m, a 207% increase year-over-year. Before you get too excited, let's dig into these numbers a bit.

In FY21, the total sale of goods decreased 4.9% year-over-year to \$6.7m in total. The main source of funds in FY21 was milestone payments and the sale of distribution rights, both of these payments were primarily due to Bronchitol finally

gaining US FDA approval in FY21. To clarify a little further, Chiesi paid Pharmaxis \$14m as a contractual reward for gaining US FDA approval and supplying the company with all of its launching stock. This \$14m was counted as revenue in FY21, but it is one-off income. Regarding the \$4m in distribution rights revenue, this was generated from selling the rights for Bronchitol in Russia and Aridol in Australia. Because it will no longer be responsible for selling in these regions, the company expects to save \$1m in expenses per year.

The wonder drug PXS-5505 and the rest of the pipeline

Currently, Pharmaxis has six drugs in development for seven different conditions. Bear with us for the names, because they are important to know. PXS-5505 is under development for myelofibrosis (Phase II) and liver and pancreatic cancer, PXS-5382 for anti-fibrotic CKD/IPF/NASH and PXS-6302 for anti-scarring, specialising in burns and established scars. PXS-4699 is being developed as an anti-inflammatory and for muscular dystrophy, while PXS-5370 and PXS-4728A are also under development as anti-inflammatories.

Let's focus on the one closest to commercialisation, PXS5505. On 13 October 2021, Pharmaxis announced to the market that it had dosed its first patient in its bone marrow cancer (myelofibrosis) Phase II trial, with the trial expected to be completed by the end of 2022. To quote management on the potential, "an effective pan-LOX inhibitor for myelofibrosis would open a market that is conservatively estimated at US\$1 billion per annum". If that was not enough potential for one drug, on 9 November 2021, Pharmaxis announced the US FDA had cleared the company to start Phase 2 trials in patients with hepatocellular carcinoma (the most common type of primary liver cancer). As there is no guarantee of success in clinical trials, it's nice to have a drug under development with its eggs in multiple baskets.

Moving into 2022

The company is in the early stages of its drug development life cycle, despite already having approval for two products. But with the company valued at only \$65.9m, positive news often leads to significant jumps in the share price. When Pharmaxis announced the US FDA cleared its PXS-5505 drug to start Phase 2 trials in hepatocellular carcinoma patients on 9 November 2021, the stock jumped over 13%.

This is why it's important to keep track of Pharmaxis' anticipated news flow. Of course, this is all subject to change, but whenever Pharmaxis posts a presentation, one of the last slides always includes a two year 'anticipated news flow' timeline. According to the latest timeline, we should expect further information on PXS-5505 and PXS-6302 before the end of FY22.

PXS-5505 and the rest of its drug pipeline have promise, sure, but a lot can go wrong before a Phase III trial is complete and commercialisation can begin. So, in our view, it's clear that while still in the early stages of developing PXS-5505, Pharmaxis is in a rather unusual situation for an early stage, \$50m market capitalisation biopharmaceutical company.

What makes Pharmaxis unique is that most clinical-stage biotechnology companies valued around \$50m usually have all of the shareholders' hopes on one drug trial (Pharmaxis has seven current trials), while this company already has two products on the market. And it is not only generating revenue, but it is getting close to becoming EBITDA positive.

On a trailing 12-month EV/Revenue basis, Pharmaxis is currently trading at a multiple of 1.7x. At these valuations, it's hard to see how Pharmaxis is not undervalued based on its two launched products, let alone the potential of PXS-5505. This one gets four stars from us.

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Share price chart



Source: Tradingview

From humble beginnings to a hero

8Common, was founded in 2014 to sell Expense8, a travel and expense management software suite that enables organisations to efficiently manage and track corporate travel and expenses. Initially, 8Common also had another product by the name of realtors8 that aided real estate agencies with their websites and sales. While it wasn't a failure, realtors8 never really took off as well as 8Common had hoped. By mid-2017, the company wanted to exclusively focus on its expense8 solution and began to divest it's stake in realtors8, completed in July 2018.

The first couple of years were slow for 8Common, but things began to improve in 2016. This is when the company announced a number of strategic partnerships in Asia that allowed travel companies to integrate expense8 into their operations. This was also the year when 8Common finally broke into the lucrative area of government contracts, such as the Department of Industry in New South Wales.

Shortly after announcing it was focusing exclusively on Expense8, 8Common acquired PayHero. This later formed the basis of 8Common's second software product, CardHero.

CardHero allows organisations to have full control over payments made by their employees. This way, management can approve or decline payments before they are made, thereby limiting the risk of fraud. CardHero not only allows users to distribute funds between business partners, suppliers and agents, but organisations can also track the expenditure of each employee and the payments made by them through Expense8. As such, 8Common can synergise both of its major platforms, allowing a one-stop-shop for expense-tracking solutions.

A path for growth

While Expense8 has been doing well for the company, management believes the future belongs to CardHero. According to an 8Common commissioned report by Veritas Securities, published on 26 March 2021, CardHero has an Average Revenue Per User (ARPU) that is at least five times as high as that of Expense8. The forecasted ARPU of a CardHero customer is above \$100, compared to \$21 for Expense8.

We expect Expense8's 171,000 users within 168 organisations to facilitate referrals for CardHero as it is easier to deal with one company and one type of system. 8Common eventually aims to have 100,000 users for CardHero, a figure that should be achievable within the next three to five years. Analysts predict the SaaS revenue to rise to \$15 million if this target is met. And although CardHero just launched in July 2021, it has already scored an important contract with not-for-profit Life Without Barriers in December 2020 for three years providing \$1.6m in total revenue.

Currently, the vast majority of 8Common clients are located in Australia, but we believe international expansion should not be overly difficult due to 8Common's success with Australian government departments.

That said, corporations still make up around 40% of the total number of 8Common clients. As such, the company experienced a dip in ARPU of around 20% to \$17 when COVID restrictions took effect in Australia and it ended FY21 with an ARPU of \$18. As restrictions are being eased in Australia and around the world, we expect to see a considerable rise in revenue in FY22. We expect Expense8's ARPU rapidly return to \$21 (which is what it was prior to COVID). Expense8's Federal Government ARPU is currently \$42 versus \$53 pre-COVID.

Money in the bank

With the company's growth plans in motion, there is only one other question that investors should be asking: Does the company have enough cash at hand to survive until it is profitable? 8Common posted a loss of \$1.4m in FY21.

Historically, 8Common has been increasing its cash position every year through issuing shares and debt financing. After raising \$3.8m in 1Q22, the company now has \$5.6m in cash, so we don't expect another capital raise in the current financial year.

In 1Q22, total revenue declined 8% compared to 4Q21, to \$784,000. The reason for this decline was due exclusively to lower implementation and transactions fees, which management claims was due to NSW and VIC lockdowns. Since SaaS revenue only declined 5% compared to 4Q21, to \$683,000, we are inclined to believe this explanation. Therefore, we believe the prediction of \$15m in revenues by FY24 is not far-fetched and it should be met with ease as long as 8Common is able to convince a significant number of its partners to switch from corporate cards to CardHero.

However, at \$0.18 per share we believe the company is likely trading at fair value. This price level implies a trailing 12-month EV/Revenue multiple of 10.5x, compared to an expected Compounding Annual Growth Rate (CAGR) of 62.3% in the drive towards FY24's estimated \$15m in total revenue. For those looking for a high-risk-high reward investment with a healthy cash position and a clear plan for the future, we believe 8Common provides an interesting investment, but maybe just wait a bit for a pullback in the share price.

However, due to the possibility of contract wins pushing the price up if and when they are announced, we don't feel comfortable give 8Common two stars, so its three stars for now.

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Share price chart



Source: Tradingview

Philippines: An opportunity for innovation

Over 75 million of the 108 million residents in the Philippines do not have a bank account. According to data from Peppermint, over 35% of the municipalities in the country do not even have a bank nearby, making it very difficult for residents to manage their finances the way people in more developed countries do.

However, mobile phones are extremely common in the Philippines. In fact, active phone connections outnumber the population. Considering that billions of payments are made every month, it is easy to see how capturing even a small portion of that market through mobile payments could be very profitable. Although the company was founded back in 2007, it wasn't until 2016 that Peppermint began to pick up steam as it noticed the gap in the Philippino market and launched numerous mobile enabled e-payments products to meet the demand. The company is currently partnered with three of the largest commercial banks in the country and provides their customers with online services, such as bank transfers and bill payments.

The only problem is that, so far, Peppermint has failed to capture a significant portion of the market. This leaves the company vulnerable to competitors and new entrants. Many of Peppermint's competitors are incumbent banks in the Philippines that have finally got their act together and are looking to tap into the unbanked population through mobile services. Peppermint has been aware of this from the very start and the company's Bizmoto brand is its key weapon in the war for market share.

Big plans for Bizmoto

Starting in July 2018, Bizmoto began to offer bill payments, e-loads, cash transfers and remittance services. In 2019, bizmoTinda was launched. BizmoTinda is an e-commerce platform available not only to select partners, but also to anyone who wants to sell their products on the web. 2019 was also the year when bizmoGo was launched. BizmoGo is a logistics and delivery service that is provided by riders contracted by Peppermint. Think of it as an UberEATS, but for everything, not just food.

Peppermint's current plans include launching bizmoProtect (a micro-insurance service) and bizmoPay (a microenterprise loan application solution on mobile phones). Peppermint also plans to get an Electronic Money issuer license that would allow the company to function as a bank and then roll out a mobile banking platform of its own.

That said, the issue of competition is still quite prominent for Bizmoto. In January 2021, Zip and AsiaPay teamed up to launch their own BNPL service, before Bizmoto had managed to launch bizmoPay.

This increasing competition creates a lot of problems for Peppermint as the company has yet to turn a profit and revenue for FY21 was only \$2.1m. We believe further competition will only make this more difficult for the company going forward.

Peppermint's main approach to growth is not to acquire users organically, although that is a part of its strategy. Instead, Peppermint focuses on agreements with leading Filipino financial services companies that offer benefits to both partners and the end consumer. For instance, in March and April of 2021, Peppermint signed agreements with Cebuana Lhuillier and the Bank of Philippines. This potentially adds a lot of new customers that Peppermint could tap into. How many of them actually end up using their services is a completely different question though.

A constant struggle

It is clear that the company is not lacking in terms of ambition or planning. However, the results over the last few years show problems when it comes to execution. With the company's cost barely lower than its total revenues, it seems unlikely that Peppermint will turn a profit anytime soon.

Due to the low growth and the losses sustained over the last few years, Peppermint has had to raise \$5m in fresh capital at \$0.02 per share (25 November 2021). These funds were used with a \$3m redeemable deposit for the EMI license, and \$2m to continue the rollout of bizmoPay. Despite the capital raise, the financial runway is short (approximately a year and a half), spelling tough times ahead. While bizmoPay did launch its 'Phase 1' offerings in 1Q22, only 359 loans were issued as of 12 October 2021. Cash receipts increased 83% to \$472,000 in 1Q22. The question is if this growth is repeatable and based off the failures of the last four years, we are a bit sceptical.

All-in-all, it is difficult to see a company that has failed to penetrate the Filipino market over the last four years suddenly take off, especially as competition is getting stronger. So, it's two stars from us.

Pitt Street Research Pty Ltd

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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.

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