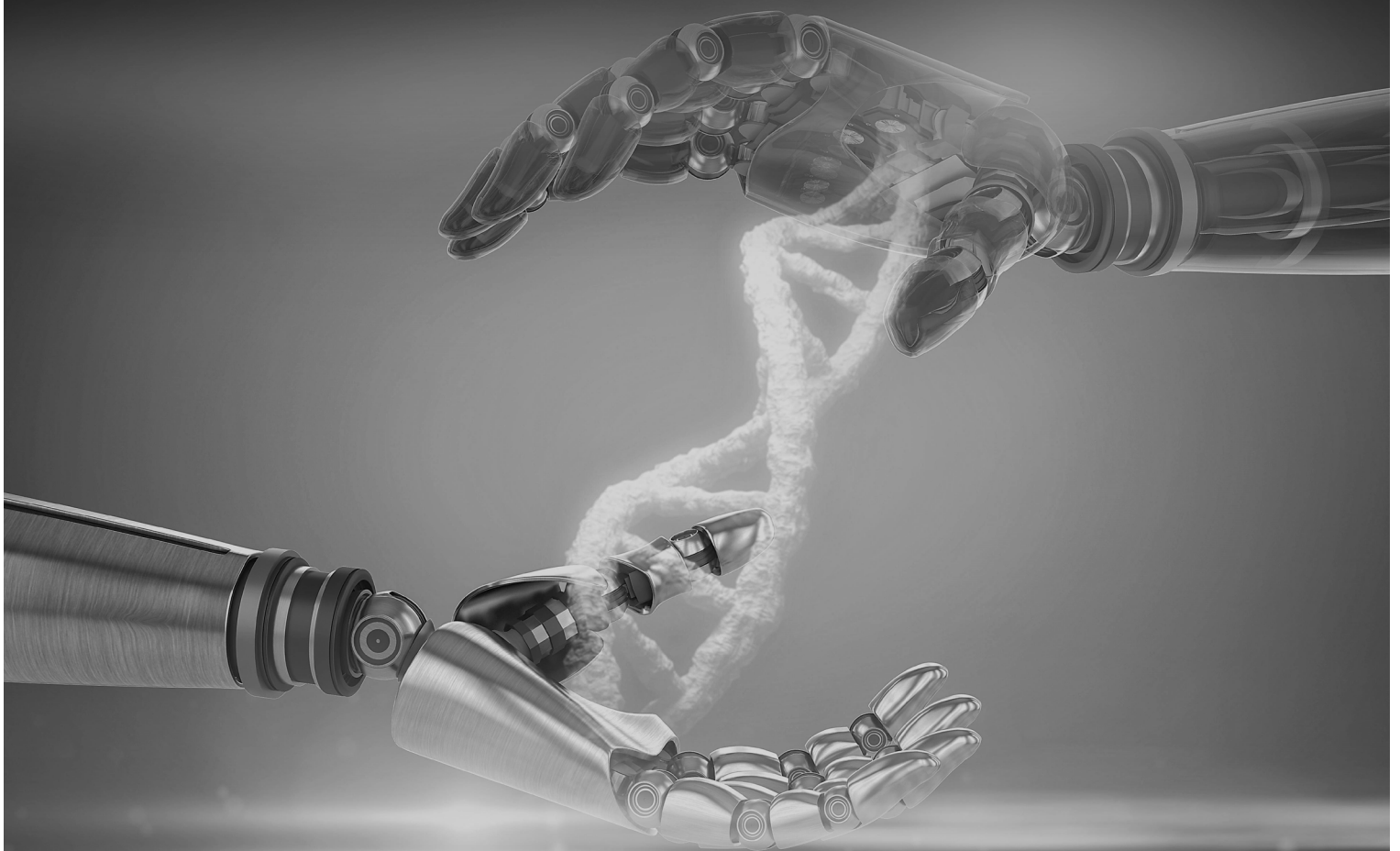




Emerging Stocks Down Under

🗨️ *Perhaps brains or a skill are the most portable
and best wealth preserver.* 🗨️

- Barton Biggs (1932-2012), Morgan Stanley investment strategist



MICROBA LIFE SCIENCES

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Stocks Down Under rating: ★★

ASX: MAP
Market cap: A\$58.4M

52-week range: A\$0.26 / A\$0.45
Share price: A\$0.265

In recent weeks we've taken a look at some of the IPOs that have defied the market and went up in recent months – IPD Group (ASX: IPG), Atturra (ASX: ATA) and Ventia (ASX: VNT) being a few examples. Today we're dissecting a debutante that has followed the market and we're asking if it can recover – Microba Life Sciences. Microba is a biotech that is seeking to commercialise a technology that helps identify gut health problems.

Share price chart



Source: Tradingview

Exploiting the gut microbiome

Microba Life Sciences debuted in early April 2022, raising \$30 million at 45 cents a share. Microba's technology was developed at the University of Queensland before the intellectual property was bought out in 2017. The company's platform uses a technology called metagenomic sequencing that sees the composition of the gut microbiome and how it can affect the health of an individual.

Microbiome alludes to the microorganisms (such as bacteria, viruses and fungi) that live in the human body. Roughly 90% of these reside in the gastrointestinal tract. Some microorganisms are beneficial, but others can be harmful, generating gut health problems, particularly inflammation and lining degradation.

We can understand if you haven't heard of the gut microbiome before - there are no microbiome-based drugs approved for use as therapeutics in humans. However, there are companies providing microbiome testing and analysis services. There is hope that gut microbiome can generate novel therapies to treat diseases and match patients with the right treatments. Indeed, there could soon be a therapeutic with Seres Therapeutics and Ferring Pharmaceuticals completing Phase III trials for their respective drug candidates and it is anticipated at least one will be approved imminently. Microba estimates the global microbiome sector is worth US\$4.9 billion, a figure that will grow higher as new therapies are developed.

Three divisions up its sleeve

The company has three divisions: The first is Microbiome Services, which sells testing products and services via healthcare practitioners to individuals seeking to test their gut microbiome as well as to research institutions and corporates. The most prominent of these is Microba Insight. Microba has sold over 20,000 tests to date through its various distribution partners across the US, EU, Middle East and Australasia. Tests are conducted via a soiled piece of toilet paper that is mailed to the lab via post and patients receive online in pdf and interactive formats. Patients receive an analysis of their personal microbiome, information on the potential for the gut microbiome to produce metabolites that might affect their health and even personalised dietary suggestions to improve the gut microbiome. Microba offers testing directly in Australia and through distributors internationally.

Microba's second division is a Proprietary Databank, which has over 1.2m microbial genomes containing 3.6 billion genes. This enables the company to identify novel therapeutic leads for chronic diseases that are identified by others. To date it has identified leads for 18 diseases and it is a unique data resource for the company. It operates by transforming raw metagenomic sequence data from a sample, into an accurate and comprehensive profile of a patient's gut microbiome.

Finally, there's Microbiome Therapeutics, which runs the company's therapeutic programs. The most prominent of them is a Phase IB human clinical trial of its lead drug candidate for Inflammatory Bowel Disease (IBD), which it is set to begin in December 2022. The market for IBD treatments was valued at US\$19.2bn in 2020 and is forecast to grow at a CAGR of 4.8% up to 2028. Current treatments can cause unwelcome side-effects, something Microba's treatments can solve.

The company's therapeutics division has two further programs. First, it has initiated a study with leading cancer institutes across the US and Australia to develop a novel microbiome-based adjuvant therapy for cancer treatments. Second, it has a partnership with Ginkgo Bioworks, a NYSE listed company, to run a drug discovery program in three autoimmune conditions.

But it's not easy being a biotech right now

As we noted in our introduction, Microba has shed nearly a third of its value since listing. Biotechs haven't had the best of times on the ASX with the majority being pre-revenue or at the early stage of commercialisation, but without being profitable yet. Even later-stage companies, such as Telix Pharmaceuticals (ASX: TLX) and Clinuvel (ASX: CUV) are well down this year. Unlike some of its early-stage peers, Microba has already commercialised its technology, but it is at an early stage, having generated a modest \$3.7m revenue in FY21 and \$2.2m revenue in 1HY22. The company's prospectus made clear its clinical programs would be the focus for the time being, allocating nearly twice as many funds to its clinical development programs as it did to the expansion of its current commercial activities into new markets.

We do like that Microba's has multiple clinical programs and is generating some revenues. We also think that eventual transactions with larger companies (M&A deals or other commercial agreements) are not out of the question in the future. And as Exopharm (ASX: EX1) depicted during the last biotech bull run, Biotechs targeting segments very few (if any) other listed companies are in, can go on share price runs off the back of good news.

Ultimately, we do not think Microba can beat the current bear market, despite its individual merits, and we are uncertain as to when conditions will become more favourable. The company may have positive news in the pipeline, but the biggest potential catalyst for a re-rating (results of the IBD clinical trial) won't come out until next year. And the company's technical fundamentals do not look promising at the moment. So, it's two stars for now.

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