



# Biotech Daily

Friday July 15, 2022

*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Trajan Group

By **TIM BOREHAM**

**ASX code:** TRJ

**Share price:** \$2.00; **Market cap:** \$299.0 million

**Shares on issue:** 149,500,233 (after June placement of 14,834,054 shares but before \$5 million share purchase plan)

**Financials (first half to December 31, 2021):** revenue \$43.7 million (up 17%), normalised earnings before interest, depreciation and amortization \$4.8 million (down 6%), net profit \$153,000 (down 95%), cash of \$33 million

**Chief executive officer:** Stephen Tomisich (co-founder)

**Board:** John Eales (chair), Mr Tomisich, Robert Lyon, Tiffany Lewin, Dr Rohit Khanna, Sara Watts

**Identifiable major shareholders\*:** Tomisich family 51.17%, Australian Super 6.0%, Ruck & Maul Pty Ltd (John Eales family) 0.6% (\* post-placement; pre-share plan.

The precision scientific instruments group has been on an acquisition spree since listing a year ago - in a measured way of course. But don't think for a moment that management has hung up the slide rule on assessing further takeover prospects.

In June, Trajan sealed the purchase of the Kentucky-based Chromatography Research Supplies (CRS), for a finger lickin' \$US43.3 million (\$64.1 million).

What's more, the company defied the frigid fund-raising conditions in the sector to raise about \$30 million in an institutional placement. Today, the company said it had raised a further \$4.7 million in a non-underwritten share purchase plan - as near as dammit to the targeted \$5 million - and will also borrow \$20 million.

CRS makes analytical consumables and tools, as used in the biological, environmental and food testing sectors.

Trajan founder and chief executive Stephen Tomisich says the acquisition was consistent with Trajan's approach of targeting familiar, founder-led businesses.

"We went to the IPO knowing we had a healthy funnel of acquisitions and the funnel is still chock-a-block," he says.

The CRS deal is the fourth since Trajan's ASX debut in June 2021. Given the \$50 million of initial public offer proceeds was earmarked for acquisition, it's a rare case of truth in (prospectus) advertising.

### **What have the Romans done for us?**

Trajan was named after the Roman emperor who ruled between 98 and 117 CE.

While Monty Python's peasants in Life of Brian held a generally poor view of the Romans, Mr Trajan had an enduring interest in philanthropy - unlike the other tyrants who ran the empire - and building decent aqueducts.

Trajan (the company) was founded in 2011 by analytical chemist Stephen and his wife Angela, who have a combined five decades' experience in analytical chemistry (Stephen) and applied science (Angela).

After flirting with the idea of starting a business for some years, the duo took the plunge by acquiring the anatomical consumables business Grate Scientific.

Over the next decade, Trajan made six more acquisitions, before listing on the ASX in June 2021.

Before then, the founders relied only on re-mortgaging the house and maxing out the credit card.

Trajan is chaired by rugby union star turned businessman John Eales, who played for the Wallabies between 1991 and 2001. Mr Eales also lines out - er, up - on the boards of the ASX-listed Flight Centre and Magellan Financial.

Trajan is based at Ringwood, in Melbourne's east, where it carries out manufacturing and research. Courtesy of its acquisitions Trajan also has manufacturing sites in Malaysia (Penang), Germany (Sprockhovel) and four US facilities (in Texas, Connecticut, North Carolina and Kentucky).

## **In the bag**

In its post-IPO buying flurry, Trajan acquired the German based Axel Semrau GmbH & Co (laboratory automation) and associated properties for a collective EUR15 million (\$A22.3 million), last November.

In early December, Trajan announced the acquisition of Leap Pal Parts (special parts and supplies distribution) for \$US7.7 million (\$A11.4 million).

Later that month, the company said it had acquired the US micro-sampling devices group Neoteryx LLC in a circa \$US5 million cash and share swap.

Mr Tomisich says all the acquisitions were founder led and “highly synergistic”.

“A common theme is they wanted to exit, and in most cases, we knew the management team,” he says.

“These are privately-held by people who want to exit, but have a fair and reasonable view of what their business is worth.”

In the case of CRS and most of the other purchases, the terms of the deals were agreed to before Trajan listed.

## **So, what does Trajan do again?**

Trajan’s charter is to “enrich human wellbeing through the design, manufacture and supply of products and solutions that enhance scientific measurement”.

The company derives recurring revenue from components and consumables that are close to - or embedded in - instrument platforms.

While there’s a big emphasis on genetics, Trajan’s core ethos is that many ailments stem from exogenous environmental factors such as air and water and soil quality or dust and diet.

Hormone levels and inflammation also come into it.

Trajan’s revenue is skewed to chromatography and mass spectrometry. Chromatography involves separating the components of a liquid or gas so they can be sampled or tested.

Mass spectrometry is about detecting and separating components of a sample by identifying ions based on their mass-to-charge ratio. Chromatography can be used in conjunction with mass spectrometry.

Trajan has devised better equipment, such as glass tubing with an internal diameter of five microns: one-tenth the width of a human hair ... not that we’re splitting hairs.

Much of Trajan's business is about supplying the critical technology to instrument makers, such as emitter tips used in electrospray mass spectrometers (a common technique used in proteomics and metabolomics).

In automated workflows, Trajan is a leader in hydrogen deuterium exchange, or HDX, which allows scientists to understand the behaviour of proteins

### **Off its own bat ...**

Trajan developed Hemapen, which allows a non-technical person to take a micro blood sample with an accuracy and integrity better than what can be achieved in a lab.

It also devised Hummingbird, a miniaturized analytical instrument for real-time measurement of output (such as medicines).

### **Finances and performance**

Management reports "strong trading through uncertain macro-economic conditions", with price increases generally passed-on to the consumer. The order book for capital equipment is at record levels.

The cost of acquisitions and supply chain hassles took the gloss off the December half 2021 earnings: a \$153,000 surplus, down 95 percent. But adjusted earnings before interest tax, depreciation and amortisation (Ebitda) declined a more sedate six percent to \$4.76 million.

Revenue climbed seven percent to \$43.7 million, with strong across-the-board demand (especially for fluidic devices, proteomic related products and HDX).

In February, management guided to full-year revenue of \$104 million to \$110 million, with adjusted Ebitda of \$12.5 million to \$13.5 million.

In mid-June, the company said the August 24 earnings announcement should outline the same turnover, but with slightly reduced earnings of \$11.2 million to \$12 million. This reflects \$1.6 million of supply chain delays and hedging contract revaluations.

"Take those out and we are tracking exactly where we said we would be," Mr Tomisich says.

The CRS purchase was funded by a \$29.7 million institutional placement, \$20 million of bank debt and \$13.4 million of existing cash.

As is often the case, the SPP was more to allow retail holders to participate rather than out of any desperate need for money.

On your columnist's back-of-the-blotter calculations, Trajan still has cash on hand of more than \$30 million.

Trajan shares have ranged between a peak of \$4.33 (on January 21 this year) and a low of \$1.99 on June 22 (the stock fell 15 percent on the back of the raising).

### **What's hot and what's not**

The Trajan business is bifurcated between life sciences and analytic products (food and environmental services). In the half year to December 31, 2021, the former accounted for \$14.8 million of revenue, compared with \$28.9 million for the latter.

Mr Tomisich describes pharmaceutical company demand as "hot" especially in areas such as micro-sampling, precision pumping syringe devices (for automated platforms) and HDX.

"Those areas have been quite strong because of the progression to personalised medicine understanding vaccines and protein development and antibody behaviour, all those things."

One "small headwind" is the Ukraine war, which has meant the company has had to suspend business with clients in Russia and the Ukraine (some were worth \$100,000 or more in revenue).

Trajan's trade wasn't exactly embargoed, but the company sportingly is "abiding by the spirit" of Western world sanctions.

Meanwhile, the analytic side is growing at a high single digit rate, compared with the historical growth rate of four to six percent.

"One of the questions is the extent of companies building inventory; are manufacturers, distributors and labs holding more stock?"

We think that's a yes.

### **Dr Boreham's diagnosis:**

Mr Tomisich quips that in the hand-to-mouth early days, he and Angela didn't just have their skin in the game, but "every vital organ".

A year on from the IPO, the duo can relax - at least a little - and enjoy the ambience of Invergowrie, the splendid 170-year-old mansion in Hawthorn, Melbourne they acquired in September last year for \$40 million.

While 25 percent of the Tomisich holdings come out of escrow after the full year results - and the remainder a year later - they intend to remain majority shareholders.

One of the great temptations of an acquirer is to buy one or three companies too many and spread its balance sheet and management too thinly.

So, when will Trajan hang up its abacus?

“It’s a hard question to answer, but one thing we monitor is how we are coping with it all, not just the Trajan team, but the new people,” Mr Tomisich says.

“You can go too far too quickly and I am mindful not to do that. We will only buy and chew what we can digest.”

At the time of the IPO, we opined that Trajan measured up as a sound investment and that appears to be the case.

Or, in Mr Tomisich’s carefully calibrated words: “We have done what we said we would do and we are tracking the way we said we would track, there are no big surprises.”

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort, but hopefully he still has the measure of his peers, with or without a slide rule.***