



Biotech Daily

Friday June 11, 2021

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Trajan Group Holdings

By TIM BOREHAM

ASX code: TRJ

Share price: \$2.35

Market cap: \$304.4 million

Shares on issue: 129,552,885

Financials (first half to December 31, 2020): revenue \$37.4 million (up 3.6%), earnings before interest, depreciation and amortization \$5.07 million (up 123%), net profit \$2.83 million (up 300%), cash of \$41.8 million (post IPO)

Chief executive officer: Stephen Tomisich (co-founder)

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

Identifiable major shareholders: Tomisich family 59%, Australian Super 11.1%, Ruck & Maul Pty Ltd (John Eales family) 0.68% (full breakdown is not yet available).

As the legendary management consultant Peter Drucker asserted: what gets measured gets improved. But in the exacting scientific world it's not as easy as whipping out the scales or the tape measure.

Extreme precision is required to deliver the best results in areas such as personalized medicine, in which quality standards have to be applied to non-uniform batches.

And extreme precision is the byword for the home-grown scientific instruments play Trajan, which listed on Monday at a 17.6447 percent first-day premium, implying a market capitalization of \$259,105,770. To be exact.

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

Trajan co-founder Stephen Tomisich says the company's core belief is about translating science to deliver tangible benefits.

"We often encountered scenarios where the technology and products existed, but it wasn't converting into meaningful outcomes," he says.

Trajan's instruments - or instrument components - are used for detecting contaminants in biological, food and environmental samples. They also have applications in pharmaceutical development, clinical diagnosis and pathology.

Trajan is based in the outer eastern Melbourne suburb of Ringwood, which houses its manufacturing and research functions. The company also has a big manufacturing site in Penang, Malaysia and three US facilities (in Texas, Connecticut and North Carolina).

Trajan has 450 staff across the globe, of which 86 are qualified engineers or scientists.

The company, by the way was named after the 13th Century Roman emperor who was one of the good guys among a pretty dodgy lot.

About Trajan

Trajan was founded in 2011 by analytical chemist Stephen and his wife Angela, who met over the lab benches at the Royal Melbourne Institute of Technology. Between them they have 50 years of experience: Stephen in analytical sciences (working for a number of multinationals) and Angela in applied science (biomedicine and clinical trials).

"For many years we had flirted with the idea of starting an enterprise in some way, shape or form and had a few false starts," Mr Tomisich said.

After their daughter completed school, the couple decided "it's time" and acquired the anatomical consumables business Grale Scientific (Angela quit her day-job to run it).

While only a \$3 million a year turnover business, Grale offered an entrée into the hospital and private pathology sectors.

Over the next 10 years Trajan made six more acquisitions, the biggest being the liquids handling business of SGE Analytical Science in 2013. Mr Tomisich actually worked in the business at the time.

"We were able to take each of those businesses and hone them, grow them and generate our own cash," Mr Tomisich says. "We never used an ounce of capital from any other source."

Today, Trajan's customers include some of the biggest life sciences, biopharma and analytic companies.

Tech-tonic shifts in measuring and analyzing

Trajan's ethos is that the human condition stems from genetics and exposomes, or non-genetic exposures.

We can't help our genes, but detecting and monitoring exposomes can improve human health. Exposomes are environmental factors such as air, dust, diet, soil and internal bodily influences such as hormone levels and inflammation.

Most of Trajan's revenue derives from chromatography and mass spectrometry.

Chromatography is the process of 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.

Areas where Trajan products are used include chemical separation of components in a sample, analytical syringes to "aspirate and dispense" minute volumes and precision fluidic systems (precise and inert tubing).

The company sells to "original equipment manufacturers", contract research organizations and scientific distribution businesses.

Honing-in on the personal touch

Trajan has a keen appreciation of the emergence of personalized medicine, with the quality of care determined by the quality of the underlying data.

"We bring the physical precision that allows much of this analytical work to happen, with integrity that underpins selectivity and sensitivity," Mr Tomisich says.

In a practical sense, this has meant that Trajan has invested in the "boring stuff" such as devising better tubes and blood collection, or a superior way of separating components using smart chemistry.

For example, the company has devised glass tubing with an internal diameter of five microns: one-tenth the width of a human hair. Accuracy also depends on the smoothness and consistency of the inside of this tubing.

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, the company is a leader in hydrogen deuterium exchange, or HDX, which allows scientists to understand the behavior of proteins.

Mr Tomisich says the company derives recurring revenue from components and consumables that are close to - or embedded in - instrument platforms.

In the pipeline

While Trajan is based on its acquired businesses, it has developed its own products. One such device is 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.

The device ensures the integrity of data, such as in longitudinal studies (such as gauging the efficacy of Covid vaccinations, over time). The sample can't be polluted, as it's sealed in the pen and dried with an in-built desiccant.

At the other end of the scale there's Hummingbird, which is a miniaturized analytical instrument for real-time measurement of output (such as medicines).

"The driver is big pharma in the US moving away from large-scale blockbuster drug making practices to small scale precision medicine and biosimilars," Mr Tomisich says.

Financials and performance

The Trajan prospectus shows the company turned over \$37.4 million in the six months to December 31, 2021, 3.6 percent higher year-on-year. Net profit tripled to \$2.83 million.

Management forecasts a net profit of \$4.99 million in the 12 months to June 30, 2021 and a \$5.83 million surplus in the 2021-'22 year. In the same period, revenue is predicted to increase to \$74.6 million and then \$82.56 million.

Post the initial public offer, the Tomisich interests retain 59.1 percent of the company, with their 76.4 million shares escrowed for two years.

The raising involved the issue of 29.4 million shares at \$1.70 apiece, to raise a chunky \$90 million. Trajan shares had a sound debut on an otherwise lacklustre day, with the shares peaking at \$2.05 a share – a 20 percent gain – and closing the day at an even \$2, and at last glance held their gains.

Trajan's sales in the December 2020 half were split between analytical products (\$25.7 million, or 68.7 percent) and the remainder (\$11.7 million) from "life science solutions".

Cut another way, the Americas accounted for 40 percent of sales in the 2019-'20 year, with Oceania (mainly Australia) chipping in only 10 percent.

Post raising, Trajan has just under \$42 million of cash and expects to be self-funded by cash flow. A loan facility (with HSBC) is on standby if the company has the urge to action its "deep pipeline" of acquisition targets.

On the hunt

Did someone say acquisitions?

Mr Tomisich says Trajan has listed with its infrastructure already built and management in place.

As a result, most of the IPO funds are earmarked for more purchases, either in areas where Trajan does not have a strong market share, or in strategic new sectors.

“We have developed a ‘founder friendly’ model,” Mr Tomisich says.

“They tend to be businesses we already know and it is rarely a competitive scenario.

“Often [the founders] don’t have a well-defined exit strategy and Trajan is a safe home for continuing their legacy.”

Competitors and comparisons

Trajan is not without competition, which comes from the likes of US giants Thermo Fisher Scientific, Agilent Technologies, Waters Corp and Tecan of Switzerland.

Most of these are also Trajan customers and there isn’t an across-the-board rival for every product.

“Each time a success story sticks its head up, it ends up being acquired by one of those international players,” Mr Tomisich says.

But with the Tomisich interests firmly in control of the register, Trajan is going nowhere and could well emerge as an Australian champion if it can continue to build its critical mass.

Eales completes perfect line-up

Trajan is chaired by rugby union star turned businessman John Eales, who played for the Wallabies between 1991 and 2001 and captained the national team on 60 occasions.

Known in his early playing days as Nobody - as in Nobody’s Perfect - Mr Eales was assigned as a mentor to Trajan after the company was one of 20 winners of the Westpac Business of Tomorrow Award (out of field of 2,500 entrants).

Mr Eales’ involvement with Trajan endured well beyond the 12-month mentorship period “without any expectation of reward or return”.

Currently, Mr Eales is also on the boards of the ASX-listed Flight Centre and Magellan Financial.

Dr Boreham's diagnosis:

While the founders now have a Trajan stake worth \$150 million and \$50 million in the bank as a result of their sell-down, building the business took enormous risks in the early days.

"At the low point we had mortgaged the house and ran every credit card to the limit," Mr Tomisich says.

"There are points in this journey where, if things had gone further south, we would have been in real trouble. We didn't just have skin in the game, but every vital organ."

He stresses that the IPO was not the Tomisich family's exit route, but a growth strategy. "Angela and I only sold down 23 percent of our holdings, so we are still strong majority shareholders."

According to research house Markets and Markets, the chromatography market was worth \$US8.6 billion in 2020 and expected to grow at a compound annual rate of 5.1 percent to 2025.

The mass spectrometry market is worth \$US4.1 billion last year and is expected to grow to \$US5.6 billion by 2025, a compound growth rate of 6.5 percent.

Mr Tomisich argues that investors can get the best of both worlds from Trajan.

"We're a solid business, funded for the past 10 years by ourselves and have been profitable each year," he says.

"We have the upside of new disruptive technologies we are taking to market - and any one of them could be an IPO candidate in their own right."

Add in resilient recurring revenues - even through the pandemic - and Trajan appears to measure up as a sound investment.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. As a professional journalist your columnist strives for utmost accuracy - or thereabouts.