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Wealth
New life in old funds, if you kiss enough frogs

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Authorised Investment Fund (AIY) 20c The eclectic nanocap fund has had more misses than hits with its investments in recent years, but has the underlying appeal of being one of only 23 surviving pooled development funds (PDF) from the Paul Keating era.

Not to be confused with a type of file attachment, a PDF pays only 15 per cent tax on dividends and capital gains earned from investments, while dividends and capital gains are tax-exempt for shareholders. However, shareholders cannot claim a tax deduction for capital losses.

Other ASX-listed PDFs are Acrux (see below), Austock (ACK), Biotech Capital (BTC), MEC Resources (MEC) and Strategic Elements (SOR).

Over time, the Authorised stable has included wine investments (Dromana Estate), building products, revolutionary solar systems and new-age plumbing products.

Others proposals including pharmaceuticals, green ammonia and sapphire glass have been breathlessly announced but never executed.

But you know what they say about kissing frogs — and Authorised looks finally to have found its prince with a two-stage deal pertaining to digital advertising. Investors think so, with the shares surging from 3c zombie territory in January to as high as 17c.

The all-scrip deals involve two Hong Kong-based entities achieving a partial listing by owning a slab of Authorised and enjoying the PDF benefits.

The first leg, announced in late January, involved AIY taking a 13.3 per cent stake in Box Digital, which is developing a platform to give digital advertising a more personal and interactive feel. With options, AIY has the ability to move to just fewer than 20 per cent of Box. In turn, Box initially will have a similar stake in Authorised.

The second stanza, announced in the middle of this month, saw Authorised take a 25 per cent interest in Hong Kong-based media buyer Asian Integrated Media.

The investment will be funded by a placement of 62.5 million AIY shares — currently about 29 per cent of Authorised — to parties associated with AIM's directors.

The idea is that Box Digital will introduce its E-mersion product to AIM's aviation-heavy client base that includes Cathay Pacific Cathay Dragon, Qantas and Jetstar.

It's expected that in-flight magazines will be replaced by screen-only versions, to remove excess weight from the planes.

The E-mersion tool combines moving images, data collection and eCommerce and the ability for the advertiser to download live updates. For example, a view of an advertisement for makeup can swipe the screen to apply different shades of the goo on a model — and then click through to buy the product via a secure link.

“It’s fun, it’s intuitive and it enables readers to engage on a number of levels without leaving the page,” says Authorised chairman Ben Genser. To date, he said, digital magazine content is usually scanned as a PDF (as in the type of file) and is inactive: “you can flick through it, but that’s about it.” It remains to be seen how AIY’s “assisted passive investment” in the duo will translate into cash and the company could certainly do with some cold, hard readies.

Authorised’s half-year accounts show revenue of zip and a cash balance of $397. That’s right — $397. Given Authorised is, well, authorised to issue another 250 million shares, the next step must involve a capital raising.

Acrux(ACR) 18c By turning to generic drug-making, the provider of the roll-on testosterone treatment Axiron is taking a different path to jump-start its fading fortunes.

Or is it? Chief executive Michael Kotsanis argues his company is sticking to its core expertise of drugs applied topically or transdermally. (You might recall Axiron was once a noted testosterone product from Acrux.) “We listed in 2004 as a topical specialist and we have been true to our DNA ever since,” he says.

Acrux and its treatment for testosterone deficiency (hypogonadism) once delivered revenue in spades after Acrux struck a distribution deal with big pharma Eli Lilly in 2010. At the time, the deal was vaunted as one of the biggest in Australian biotech history, involving up to $US335 million in upfront and milestone payments.

The US has accounted for 95 per cent of global testosterone sales — more because of the monstrous margins on offer than because of higher fundamental need.

The fortunes of Acrux and Axiron started to deflate in 2014, after the US Food & Drug Administration linked testosterone drugs to heart failure and strokes.

Then Acrux and Eli Lilly lost a series of patent challenges, resulting in Eli Lilly handing back the global rights to Axiron last year.

Axiron has now gone off patent and is subject to competition from at least three generics rivals.

Acrux itself is developing a pipeline of 10 topical generic drugs, with its first filing for US FDA approval planned this year.

In the US, nine out of 10 prescription drugs in its $US400 billion ($528bn) market are generic and those proportions are increasing as more big-name drugs come off patent (and are thus open to generic competition).

For drugmakers, generics are cheap to produce and they don’t usually require fresh clinical trials for approval. The downside is that the market becomes a free-for-all and generic makers have to seize first-mover advantage. Pfizer’s cholesterol drug Lipitor, the biggest selling drug in history, came off patent in 2011 and is now subject to at least 15 generics rivals.

In its heyday, Acrux was valued at up to $700m. It is now worth about $30m, less than its cash of $32m.

Some investors argue Acrux should return its funds to shareholders, instead of burning cash on drug development and maintaining the costs of an ASX-listed company. But presumably the majority of Acrux’s 7300 shareholders approve of the company’s new remit.

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