STOCKS DOWN UNDER

6 APRIL 2021

Emerging Stocks Down Under

“An investment in knowledge always pays the best interest.”

- Benjamin Franklin (1706 - 1790), Inventor, diplomat, and Founding Father of the United States

JANISON EDUCATION GROUP

A stock passing our test

MEDADVISOR

Take its advice

DIGITALX

Uncertain in the digital

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Stocks Down Under rating: ★★★★

ASX: JAN
Market cap: A$ 157M

52-week range: A$0.245 / A$0.77
Share price: A$ 0.75

COVID-19 lockdowns seemed to be perfectly catered to the Janison Education Group's business model. This Sydney-based technology company develops online assessment and learning platforms. Unsurprisingly, demand spiked during 1HY21 as student learning moved online. In fact, between July and 12 April 2021 the stock has jumped 134%. However, with Australia's students back in the classroom, is it safe to withdraw from this class?

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Share price chart

Source: Tradingview

Pity the children

What at first seemed to be an extralong break from school quickly turned into an online learning bonanza. According to the World Economic Forum over 1.2bn children in 186 countries were impacted by school closures. Many of these countries even reached 100% online student saturation during 2020. Helped by this forced crash course in the benefits of online learning, the World Economic Forum currently expects the worldwide market for online education to reach US$350bn by 2025. However, there's one major issue with this projection; it relies on sustained, significant growth outside of a COVID-19 setting. Is this expectation truly realistic?

It turns out, the education industry had been adopting online platforms and other technological innovations for a while before COVID-19 hit. The World Economic Forum reports that, worldwide education technology investments reached US$18.7bn during 2019, representing 14.5% growth year-over-year.

Worldwide Janison

Janison's focuses on digital assessments for schools, higher education and accreditation. During 2020 alone, the company proctored 10,000 exams, managed 10m tests across 117 countries with 4.5m students. Unfortunately, this has not turned into a significant amount of revenue for the company so far. During FY20, Janison generated $21.9m in revenue or approximately $4.87 per student. The company's revenue is split between recurring revenue ($14m: FY20) and services ($7.9m: FY20). Recurring revenue comes from the company's assessment platform and saw 22% growth year-over-year. Unfortunately, the company's service revenue was not so fortunate and saw a 29% decline, dragging down overall revenue to $21.9m, a drop of 3% year-over-year. Due to the decline in exam proctoring, which is a lower margin service, EBITDA actually increased 26% to $2.5m during FY20, driven by the higher-margin recurring revenues.

So, looking forward where does this leave Janison? We believe the online exam platform is where its bottom line's true future potential lies. If Janison were only based in Australia or the United States, we would be concerned that the boost to online assessments would be short-lived. Fortunately, the company is truly global and diversified, operating in 117 different countries. We believe this means the company has a greater chance of coming out of the pandemic stronger than if its operations were concentrated in just a few geographies.

The PISA partnership win

Janison announced a very profitable and significant public relations win during April 2019, which set-up the company perfectly for the pandemic. The company announced a five-year exclusive agreement with the Organisation for Economic Cooperation and Development (OECD) to develop and run the PISA-for-Schools. The program saw Janison digitise the PISA test. This test is currently delivered in the USA, Spain, Portugal, Brazil, Thailand, Japan, Pakistan and Russia. Its focus is on determining the basic academic abilities of 15-year-old students in different countries. This program is extremely profitable for Janison, with a gross margin of 75%, and as the program is currently offered to 90 different countries, there is plenty of opportunities for the company to expand geographically with this program. We believe it is likely that the OECD will look for this program to be further digitised and, therefore, for Janison to further expand. We believe this program and the potential geographical diversification will help the company weather any post-COVID-19 pullbacks.

Ready to rock and roll

We believe Janison is well-positioned to take full advantage of the continuing worldwide push into online education, which was accelerated by COVID-19. However, we also believe the industry is likely to see a temporary investment pullback following the post-COVID-19 era.

But we still believe Janison is unlikely to be significantly affected by any temporary investment pullback due to its OECD partnership, geographic diversification and the global trend of increasing technological investments in the education industry as a whole.

Looking at the market's current FY22 and FY23 expectations, investors seem to agree. The stock's EV/EBITDA ratio for FY22 and FY23 currently stands at 22x and 15x, respectively. This is based on the expected EBITDA growth of 38% during FY22 and 43% during FY23. Overall, we believe the stock's current valuation is well below what we would deem to be fair. We believe Janison and its investors have a bright future, so four stars from us.

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Where did the idea originate?

Josh Swinnerton started MedAdvisor after his mother was placed on more than ten different prescription medications. Like many people, his mother needed help with arthritis and Parkinson's Disease but felt significant stress over managing the entire process around being prescribed so many different medications. This is how the idea for MedAdvisor was born and the company's application is currently available for download on the Apple Store and Google Play. So, how does this App help?

The MedAdvisor application allows users to access their medication records, pre-order medications and set medication reminders. It even has a caregiver feature that allows the caregiver to have access to the information via the application as well. One interesting feature allows users to see how many refills are left on their prescription.

The company currently operates in the United States, Australia, the Philippines and the United Kingdom. However, there is a catch. Due to many of the features' confidential and regulated nature, MedAdvisor needs

to partner with the different pharmacies and healthcare organisations involved in dispensing 'behind the counter' drugs. Therefore, an individual cannot use the application unless their pharmacy is partnered with MedAdvisor.

Fortunately, MedAdvisor is well aware of this limitation and has focused heavily on cementing these partnerships. Currently, the company has three key partnerships: HMS, the National Pharmacy Association of the United Kingdom and Zuellig Pharma. HMS is a company heavily involved in the United States healthcare market and grants MedAdvisor access to approximately 350 US health insurers. The National Pharmacy Association of the United Kingdom currently supports 6,800 pharmacies, while Zuellig Pharma has 90,000 pharmacy customers. Through these partnerships, MedAdvisor is currently working with 18 out of the top 20 global pharmaceutical companies through their health programs. While all of this is extremely encouraging, MedAdvisor is not yet profitable and still very much in its early growth stages.

Show me the money!

The company generates its revenue in three ways. The first is through charging transaction fees in the application and SMS fees, which generated $1.2m during 1HY21. The second is charging health programs for the right to offer the application to their members, which saw $8.7m in revenue during 1HY21. Last but not least is Software as a Service charges. Software as a Service generated $3.1m in revenue during 1HY21.

Revenue growth has skyrocketed during 1HY21 as the company signed a partnership agreement with Adheris. In case you haven't heard of Adheris, 57% of United States prescriptions flow through Adheris' network annually. We believe the United States is where MedAdvisor's true growth lies, despite 65% of Australian pharmacies currently being on MedAdvisor's platform.

Due to the new Adheris partnership, total revenues for 1HY21 jumped 191% year-over-year to $12.9m. Seeing as how $7.9m of that can be directly traced back to the Adheris partnership, 2021 was certainly off to an excellent start.

Given the strong upside from the Adheris collaboration, we'd be on the lookout for additional partnerships, in the US and other countries.

General advice on MedAdvisor

Unfortunately, MedAdvisor hasn't provided any financial guidance and there is no significant analyst coverage. But due to the massive change in circumstances following the Adheris partnership, we believe it would have been prudent for MedAdvisor to at least give investors some sense of where revenues are headed.

Based on trailing 12-months revenue, the company is trading at an EV/Revenue ratio of 6x. While this may seem high, we believe MedAdvisor has two things going for it: a true need in the market for its services and institutional backing, i.e. from major pharmacies and insurers.

MedAdvisor solves a real and ever-present problem; managing medication can be a complete nightmare. Based on the application's reviews and strong acceptance among pharmacies, insurance companies and the Australian public, we believe MedAdvisor does solve the problem it has set out to fix. We also believe MedAdvisor has true institutional backing. Based on these factors and the company's strong revenue growth, its four stars from us.

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Source: Tradingview

Good luck monetising the blockchain

DigitalX is attempting what many have tried and failed to do before, successfully turn the blockchain into a profitable business model. Whether it is because the blockchain is open source, it is too new, too complicated or any other reason, a shockingly small fraction of the companies who have tried have come anywhere close to succeeding.

DigitalX is currently focusing on one project: Drawbridge. This project is focused on the RegTech (regulation technology) sector by using blockchain technology (also known as Distributed Ledger Technology) to reduce and catch errors and unauthorised trading by company executives and key personal of publicly traded companies. Specifically, this product helps future customers implement their securities trading policies under ASX Listing Rules 12.9 – 12.12. DigitalX has launched this product under the Early Adopter Programme (EAP) of the ASX's blockchain program that is effectively a beta testing program, allowing the company to sort through the bugs prior to commercial launch. DigitalX has secured its first customer during 2QY21, but the cash receipts are far from material at this time.

The cryptocurrency portfolio

Since DigitalX is currently working with blockchain technology, it is not that far a leap for the company to offer a digital asset funds management service to investors. This service offers investors the ability to invest in its fund that holds Bitcoin and other digital assets, handpicked and managed by DigitalX's fund managers. Since it launched, the fund has seen strong interest, with Funds Under Management reaching $20m by the end of 1HY21. The company generated revenue of $108,073 from this $20m in FUM during 1HY21.

Interestingly, the DigitalX Bitcoin Fund, as it is called, has achieved some institutional acceptance with its listing on Powerwrap and Netwealth's wealth management platforms. The company is currently in talks with two other unnamed Australian 'major' wealth management platforms to be listed pending successful due diligence.

One major piece of information was released to the public during DigitalX's 1HY21 report that could offer this fund a massive new source of potential investors. The company is currently in discussions with its fund administrator to open the DigitalX Bitcoin Fund to all qualifying investors currently residing in all Commonwealth countries. This drastic expansion of the company's potential investor base could lead to a large influx of capital into the fund. This opening up of the fund is far from certain and the company has not issued a timeline for when a decision is likely to be made. All of this is uncertain, but at only $20m in total Funds Under Management today, we believe the opportunity could be quite large.

Nobody knows the future here

Our issue with DigitalX is that there is far too much uncertainty surrounding the stock. The Drawbridge project still has a lot of unknowns. Will companies be interested in buying its service? We think it is certainly a clever product with a solid use case, but its ability to create a profit is far from clear. Thirteen years after the creation of Bitcoin and the blockchain, this industry is still in its relative infancy and there are still very few examples of profitable ventures in this space.

And because this industry is very new, there are likely to be many new companies that are currently flying under the radar, but that have potentially similar and/or better products. In other words, someone could beat DigitalX to the punch.

When it comes to the DigitalX Bitcoin Fund, we see two main risks: its exposure to digital assets and its emerging nature. Bitcoin and other digital assets are currently near all-time highs. If these assets were to crash as they have done multiple times before, we believe it is highly likely that the DigitalX Bitcoin Fund could collapse as well as investors withdraw their funds. The fund is very young and massive redemptions could tarnish its reputation, in our view.

Taking all of this into account, we strongly believe that DigitalX is far too risky for us to recommend at this time. However, we also believe we cannot issue a two-star rating either, because the combination of blockchain and cryptocurrency makes this stock a punter's paradise with regular price spikes. Therefore, we are issuing a three-star rating for DigitalX at this time, but buyer beware: this is a risky one.

Pitt Street Research Pty Ltd

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Pitt Street Research Pty Ltd is founded on more than 40 years of combined experience researching companies in a range of different sectors.

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