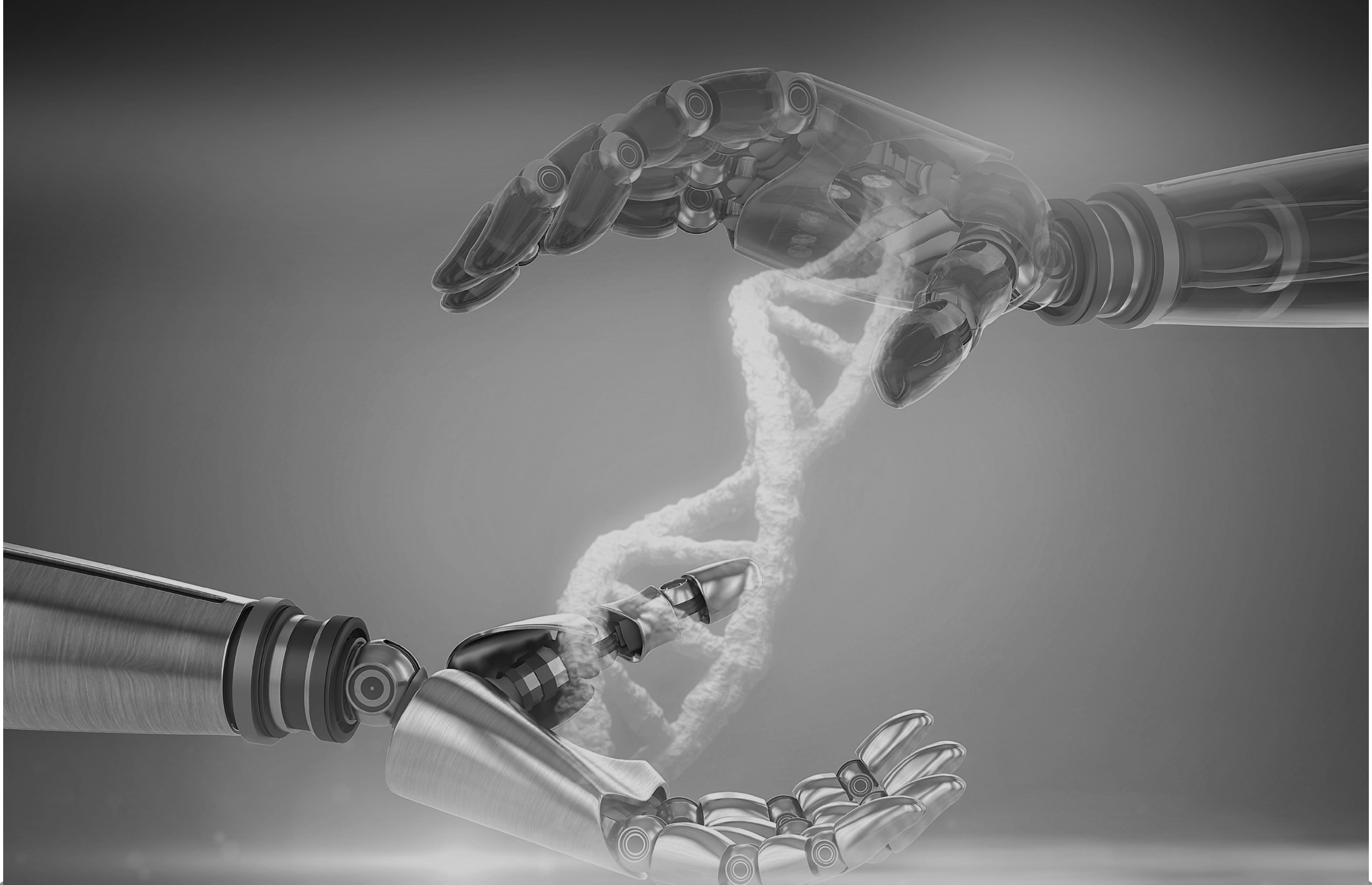
STOCKS DOWN UNDER

14 DECEMBER 2021

Emerging Stocks Down Under

> *In the general course of human nature, a power over a man's subsistence amounts to a power over his will.*

- Alexander Hamilton (1755 or 1757 - 1804), American Founding Father



PROPTECH GROUP

Afterpay for your house?

GEFEN INTERNATIONAL AI

Intelligent marketing

AUSTCO HEALTHCARE

No alarms here

PROPTECH GROUP

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Stocks Down Under rating: ★★★★

ASX: PTG
Market cap: A$88.3M

52-week range: A$0.305 / A$0.867
Share price: A$0.59

Just like the property market it serves, PropTech Group's price soared in the first half of 2021, rising 100% from A$0.40 to A$0.82, although recently it has come off the boil to A$0.64. PropTech is a software developer dedicated to serving the real estate industry, providing end-to-end solutions under one roof to assist in all elements of marketing, selling and purchasing property. Half of all real estate agencies across Australia and New Zealand, including Ray White, Raine & Horne and Harcourts, are now using at least one of its products and A$179bn worth in transactions were facilitated by its software in the last year. In August 2021 the company announced the launch of PropPay, a joint venture to bring the Buy Now Pay Later (BNPL) revolution to the real estate industry.

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ASX: GFN
Market cap: A$72.9M

52-week range: A$0.495 / A$0.98
Share price: A$0.57

Israeli digital transformation and marketing start-up Gefen Technologies provides an end-to-end digital platform for agent-based sales networks. It is focussed on the regulation-heavy insurance and financial sectors as its platform allows agents to personalise their branding and sales strategies while ensuring compliance. Currently operating across 15 countries around the globe and expanding rapidly through several new strategic partnerships, we believe Gefen is an exciting opportunity with no true competitors.

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52-week range: A$0.087 / A$0.165
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Founded in Perth and now headquartered from what is quickly becoming the new state of choice for tech companies, Texas, Austco's focus is on nurse call systems that optimise and enhance clinical care. It is the largest provider of these systems in the Southern Hemisphere and sells in 60 markets worldwide. After seeing revenue growth stagnate due to COVID restrictions, which prevented new installations, Austco is keen to invest heavily in growth through the onboarding of more sales agents in key markets and by pursuing strategic acquisitions.

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Share price chart

Source: Tradingview

Buying out the competition?

PropTech is active across Australia, New Zealand and the UK. It operates a suite of cloud-based software as a service (SaaS) offerings for businesses in the real estate space. The core offering is commercial and residential sales management (CRM) and residential property management (PM) software. It has recently purchased two competitors in this space to expand its market share, MyDesktop from Domain Holdings Group and Eagle Software in July 2021. This has made it the number one CRM provider in ANZ. MyDesktop is now being migrated into and replaced by PropTech's next-gen all in one CRM platform, VaultRE and Eagle Software will be kept separate to cater to boutique agencies.

More acquisitions across other markets, like the UK, are in the works to further increase PropTech's market share. Aggressive expansion in the SaaS space has resulted in repeated years of losses. However, revenue growth is reaping the rewards. Despite a loss of A$385,000 in FY20 and A$1m in FY21, revenue has jumped by 291% YoY. 89% of this revenue is coming from the SaaS offerings. Transactional products, which bring revenue from sales commissions, are an area of the business that PropTech are hoping to develop in the coming years.

Data, Data, Data

This growth in revenue isn't being driven just by PropTech's acquisitions, but also by the value that PropTech adds to agencies. Average revenue per agency office per month (ARPA) has grown 10% in the last year. Over the past decade it's become clear that data driven decisions and reliable software are key to success in the new digital world and this growth demonstrates the benefit that PropTech's software provides to customers sales efforts.

PropTech also has two marketing platforms that enable agencies to make informed decisions based on data insights they can obtain from their CRM and PM software suites. This enables agencies to target potential sellers and buyers more accurately leading to higher sales. That is the advantage of integrated end to end solutions as one company can ensure that all its software works together. This adds value to PropTech's existing products, enabling the company to help agencies grow their sales.

Can I put my house on Afterpay?

The BNPL craze seems to be taking off everywhere you look. Pioneered AfterPay in retail, BNPL is now in development across a range of industries. In August 2021 PropTech announced the launch of the PropPay joint venture with Flip Money, Convini and BC Investment Group Australia. PropTech will initially control 20% of PropPay with the option to increase this holding depending on its contribution to revenue. PropTech has brought on board collaborators that bring essential expertise to the product. Flip Money is already an established player in the BNPL market, providing services for businesses to help with cash flow through its FlipPay service. Convini also is a specialist in business cash flow management and BC is providing the capital to get the venture off the ground.

PropPay will provide the opportunity for agencies, agents and customers to access the flexibility of BNPL. It will offer agencies the ability to pay now or pay later for marketing costs, an area currently worth A$2bn in Australasia. It will also give agents access to commissions early, a A$14bn market.

PropPay aims to add BNPL functionality to any possible real estate transaction bringing revolutionary flexibility that has never been seen in an industry that has been set in its ways for decades. PropPay has a key advantage over its competition in that it will be deeply integrated into PropTech's existing software options, which, with its position as the number one CRM provider in the ANZ region, has potential to bring swift adoption. Competition such as PrePay, a service that provides rent to landlords early and BNPL options to renters lacks this advantage and could easily be left behind if PropPay takes off at the rate other areas of PropTech's business are growing.

Here come the innovators

Let's face it, the real estate industry hasn't historically been all that receptive to innovation, but that just means when innovators come along, they can enjoy outsized profits. On consensus numbers PropTech is expected to grow its top line from $18m in FY22 to $32m in FY24. By that time the company is expected to be EBITDA profitable to the tune of $4m, which implies an EV/EBITDA multiple of 20.5x. For FY25 that number drops to 8x, which is much more acceptable, but it is also three years away.

From its peak at $0.87 per share back in April, PropTech stock is technically still in a downtrend, but is finding support at $0.55. Sooner or later, something's got to give. CEO Joe Hanna and Chairman Simon Baker seem to be of the view that the stock will soon break through the downtrend, which might be why they have been recent on-market buyers of stock. We think director buying is a good sign most of the time. So, despite the fact that EBITDA profitability is still some way off, we think this stock is four stars.

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End-to-End Integration

Licence fees for Gefen's platform as well as a large commission on sales currently provide all of Gefen's revenue, which was up 22% in 1HY21 (calendar year) to US$6.75m. The platform simplifies all sales and marketing activities for the user as it allows content creation, compliance and distribution, all to be managed centrally. 'Carriers', that is, the users of the platform, can then automate marketing and personalise the customer experience which increases brand loyalty. Sales and engagement data can be analysed and acted on to change content all without leaving the platform. This simplification can reduce carriers' technology total cost of ownership (TCO) by up to 400% while increasing business growth by 150%.

It has become clear over the last decade that data collection and analysis of that data is a key tool for driving business development and growth. Global data production is expected to double by 2025 and so we believe the ability to analyse and implement changes based on customer interaction data will give Gefen's carriers an advantage. It's not just the carriers that benefit from the platform, as agent retention has increased 34% among its carriers and their productivity has doubled.

Competition

Gefen's cloud-based platform that provides solutions for all sales and marketing organisations within one software package is fairly unique within the industry. Competitors like Adobe (NASDAQ: ADBE) and Mailchimp may be more established, but we believe they lack some of the sophisticated features that make Gefen stand out. For instance, Gefen's end-to-end marketplace integration and full automation of marketing actions.

Digital marketing is big business and Mailchimp has just been bought by Intuit (NASDAQ: INTU) for US$12bn. At acquisition, Mailchimp had revenues exceeding US$800m. These types of competitors are not as specialised as Gefen, which currently focusses on the financial services sector. Mailchimp for example has customers across a wide range of industries, from brewing to the video platforms. This broader reach gives Gefen's competitors the ability to expand faster and further from their already established position. In the digital space we have seen time and time again that start-ups with useful features often have those features emulated, not to say stolen, by more established brands with larger resources. It may only be a matter of time before more established companies copy the very things that make Gefen stand out.

The network effect is starting to kick in

Although its revenue has already increased 22% on the previous half year, we expect Gefen's growth to be even stronger in 2HY21 if it can successfully bring two additional revenue streams online. The company hopes to become a Facebook Marketing Partner and charge commission for the management of social media campaigns as well as charge payment processing fees. If the platform continues to grow at its current rate – contracted carriers grew 197% from 29 to 86 in 1HY21 and interactions between agents and customers nearly doubled from US$1.5m to US$2.4m – we believe that revenue will grow rapidly.

Gefen achieved profitability in 1HCY21 with a net profit of US$2.2m, up from a loss of US$9m in 2HCY20. This is due to a 45% decrease in R&D costs, now that the platform is mature and operational, as well as a 76% decrease in marketing costs as the platform is enjoying strong organic growth. It is also showing strong growth in the number of end customers agents can engage with, indicating a network effect is kicking in. The number of end customers grew 72% faster than the number of agents showing that the platform itself is driving an increase in sales and interactions, which will drive an increasing proportion of revenue for Gefen going forward once the payment processing fees are implemented.

During 3Q21, growth slowed, but was still significant with cash receipts growing 5.1% sequentially to US$2.7m, while the number of contract carriers increasing 24.4% to 107.

Multiple countries now involved

Gefen is active across 15 countries including its home market of Israel, Australia and the US. It's recently signed partnerships with IA Financial Group (TSX: IAG), a large Canadian insurance firm, and Sapiens Group (NASDAQ: SPNS) to expand its client base across Europe and North America. Sapiens has over 600 clients across the finance and insurance sectors and Gefen hopes this partnership will lead to significant growth.

Digital and social media marketing are expected to continue to grow at a rapid pace throughout the next decade. Traditional companies are increasingly recognising the value that a strong online presence can have and are investing more and more in this space every year. Gefen should be able to reap the benefits of this growth going forward.

In 2020 Gefen achieved A$16.4m in sales revenue. On that basis, the company is currently trading at a trailing twelve-month Price/Sales (P/S) multiple of 4.4x, which is low given the rapid growth the company is experiencing. Extrapolating the 22% growth in the first half of the year to the whole of CY21 and 2022 brings this year's P/S down to 3.7x and next year's to 3x. We believe that is very reasonable for a company that could realistically grow a lot faster than 22% annually given the network effects that are kicking in. You can currently buy Gefen 43% below the company's August 2021 IPO price of $1 per share. So, it's four stars from us.

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Share price chart

Source: Tradingview

Nurse?

Austco's Tacera nurse call system is a core system into which all its other products can integrate to provide comprehensive functionality that allows all elements of patient care to be optimised. Tacera works with almost all other healthcare systems through a web-based API for seamless integration into any clinical environment. Tacera encompasses a variety of devices from call points and pull cords for patients to alert nurses, to touchscreens and lights to assist nurses providing care.

Pulse Mobile and Workflow are two key software products for Austco. Pulse Mobile allows nurses to monitor and receive alerts from all their patients via their phone. They can then communicate whether they can attend alerts or need extra help, improving efficiencies and health outcomes for patients. Tacera also has a built-in Real-Time Locator System (RTLS), a network of sensors built into all equipment wirelessly that always interacts with patient badges to alert staff to patient locations. It also records staff locations so all patient interactions and interventions are logged automatically.

Workflow is a fully customisable software package where any function that might be needed by a patient or clinician can be added. It works with Tacera to add functionality by allowing all medical records to be updated at the push of a button. Staff can then spend more time treating patients and less time recording on charts. These systems are improving patient and staff outcomes worldwide.

Everything's about data

The point in all this technology is to record data about every element of a patient's care. Data enables nurse workflow to be optimised and improved, thereby increasing the financial efficiency of any healthcare setting. Through Austco's cloud-based Pulse Reports system, health administrators can monitor patient interaction data from a ward to an entire region. This enables resources to be assigned to the correct area, again improving financial efficiency.

Every industry is migrating to cloud-based data analytics and huge growth is expected in the sector as businesses recognise its value and attempt to gather as much data as possible to improve their operations. All of Austco's software is entirely customisable allowing healthcare providers to focus on their priorities. Healthcare is a diverse business landscape globally, populated by private businesses as well as large, state-run organisations that naturally have different priorities. We believe this flexibility will be key to Austco's success with regards to its ability to grow the business.

With this huge quantity of sensitive data being recorded, security is naturally a concern. In recent years we've seen hospitals and even entire healthcare systems, such as the NHS in the UK, brought to its knees by cyber-attacks. Austco's systems are designed to only function when connected to a hospital's secure Wi-Fi network, so hopefully this means that data cannot easily be stolen.

What about COVID?

COVID-19 has inevitably affected Austco's financial position. Restrictions limiting face to face interactions led to revenue from installations falling 19% and software sales falling A$0.5m year-on-year. Global supply chain shortages of key components, such as microchips, have also affected deliveries and as a result of these factors total revenue fell 1%. What is encouraging, though, is that margins and EBITDA both grew, the latter by 37% on the previous year to A$5m. This is part of a deliberate effort to improve margins by decreasing reliance on China and transitioning global distribution to Malaysia. With ever-increasing tensions in the Indo-Pacific, particularly between China on the one hand and the US and Australia on the other, we believe this will make Austco more resilient to future diplomatic shocks. Austco has developed a significant order book through the pandemic that should result in dependable revenue growth once installations can return to normal.

COVID has given governments the world over a shock and has shown the value of investing in a reliable health care infrastructure. This in combination with rapidly ageing populations worldwide will drive strong and sustained growth across the healthcare sector, in our view. Aged care is particularly reliant on nurses due to the high levels of attention patients require and this should benefit Austco.

The company is not only focussed on developed markets that can afford and rely on complex software integrations and fancy smartphone apps to improve patient care. Specifically for Emerging Markets, it has a simpler, hardware-based system, called Medicom, which does not sacrifice the essential functions, but lacks the complexity and software integrations of Tacera. This kind of product can sell well in emerging healthcare systems and Austco has already decided to invest in growing its sales team across Asia.

Austco stock re-rated in the first half of calendar 2021 and has been steady since then. We think it's undervalued. There are no consensus numbers available, but in FY21 revenue totalled $31m while revenue amounted to EBITDA $5m. As at June 2021 cash amounted to $7.8m, implying an Enterprise Value of only about $31.7m. So, on a trailing 12-month EV/EBITDA multiple of 12x, we believe Austco is attractively valued given the growth opportunities we talk about. Now you know why Chairman Graeme Billings and director Brett Burns have been recent on-market buyers of stock. Four stars.

Pitt Street Research Pty Ltd

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