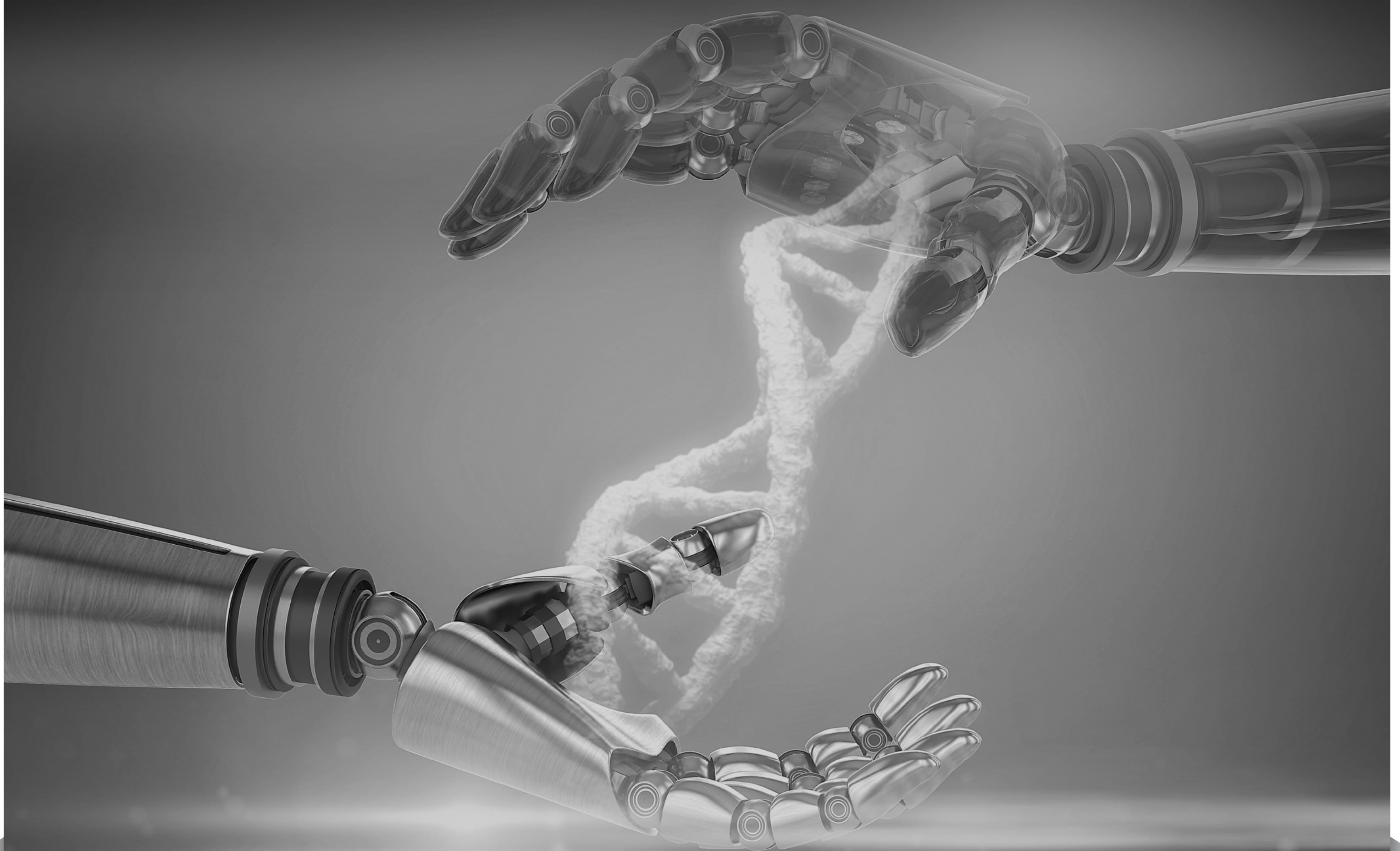
STOCKS DOWN UNDER

21 DECEMBER 2021

Emerging Stocks Down Under

> *The only thing achieved in life without effort is failure.*
>
> - St. Francis of Assisi (unknown - 1226), Catholic saint



RPMGLOBAL HOLDINGS

Just getting started

VISTA GROUP INTERNATIONAL

Still a lot to prove

ECHOIQ

Risky, but high-potential AI play

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Just getting started

Stocks Down Under rating: ★★★★

ASX: RUL
Market cap: A$496.8M

52-week range: A$1.07 / A$2.27
Share price: A$2.12

Brisbane-based RPMGlobal is unlike most of the mining services companies we have covered at Stocks Down Under. While the company provides standard advisory, technical consulting and training services (specifically related to mine planning), it also provides mining software. Yes, it's true, the mining industry has moved past pickaxes and canaries and it is now a much more technology-driven business. That technological boom has led to RPM's stock to perform strongly over the last year and we think it's just getting started.

READ MORE

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Market cap: A$494.8M

52-week range: A$1.335 / A$2.74
Share price: A$2.05

Headquartered in Newton, New Zealand, Vista Group International was one of the first stocks we covered back on 20 December 2019 and just looking at the market capitalisation, not much has changed. When we last reported on the stock its market capitalisation was $557m and now its $494.8m, not very impressive in almost two years. However, when you consider that Vista's business is Software as a Service (SaaS), analytics and the distribution and steaming of films across Australia and New Zealand, the poor performance over the last two years makes a lot more sense. Cinema has taken a major beating during COVID-19. And while the industry is starting to recover, but we believe it has a lot to prove before we are ready to dive back in.

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Share price chart

Source: Tradingview

Global and diversified

RPMGlobal is both a global and diversified mining services operation. Unlike most of the mining services companies we have covered before (e.g. Mitchell Services | ASX: MSV | see 13 August 2021 report), RPMGlobal provides both mining services (training, consulting and advisory services) and its mining Enterprise Planning Framework platform.

Historically, the advisory and consulting services division has generated the majority of revenues. In FY20, this division generated 49% of the company's $73.5m in total revenue, but with this division declining 23% in FY21, to $27.8m, it's revenue share declined to41.9% of FY21's $66.4mtotal revenue. The main reason for this decline was travel restrictions slowing operations down considerably. It is important to note that in FY20, this division included GeoGas, which has since been divested for $500,000 in cash and triggered a $4.9m goodwill impairment in FY21's annual numbers. The reason for this divestment was purely strategic, RPMGlobal is working on transforming itself into a one stop shop for mining operations to meet ESG investment criteria. GeoGas' clients are all involved in the coal industry.

The second division is based around RPMGlobal's Enterprise Planning Framework platform. This platform provides mining operations with one place to schedule, control and review everything from maintenance, simulation and costs as well as general operations, emissions tracking and financial management. In FY21, this division's revenues were effectively flat at $48.8m. While subscription revenue was up 55% to $15.5m, support, consulting and perpetual licences all saw declines, mostly due to COVID-19 related operational delays. Still, FY21 was a solid year for the software division as approximately 87% of subscriptions are now longer than three years. Additionally, as of 1 July 2021, pre-contracted software subscription revenue amounted to $65.7m, up from $35.9m on 1 July 2020.

A framework for ESG

Long-time readers of Stocks Down Under will know we believe in the long-term benefits of Environmental, Social and Governance (ESG) investing. However, we also believe there is a lot to improve around clear and transparent 'ESG investment' reporting. While the regulatory framework requires international government cooperation, RPMGlobal is making moves to provide mining companies with easy ways to plan, execute and prove that their operations follow an ESG framework. In fact, RPMGlobal is going so far as to create a new ESG mining division after it acquired Nitro Solutions on 1 July 2021 and followed up that acquisition with the acquisition of Blueprint Environmental Strategies, announced on 21 September 2021. But what exactly are these two companies, and what do they bring to the ESG mining table?

The first acquisition that allowed for the creation of the ESG mining division was Nitro Solutions, a company founded by Ngaire Tranter in July 2015. Nitro Solutions specialises in providing specialists and expertise for mining operations to receive environmental approvals and regulatory advice, make impact assessments, environmental audits and compliance reports as well as figure out the environmental economics and which way the policy and legislation winds are blowing. Basically, this acquisition was more about acquiring the expertise, reputation and processes of Nitro Solutions to form the basis of its new division, rather than acquiring technology or Intellectual Property (IP). Instead of building the division from scratch, RPMGlobal took the shortcut of just acquiring the bedrock it needed.

Now that it has the bedrock with which to build its new ESG division, RPMGlobal decided to acquire Blueprint Environmental Strategies, focussed on Western Australia. This acquisition is mostly to do with the company's skilled workforce. According to RPMGlobal's 21 September 2021 announcement Blueprint has an "established team of environmental specialists with deep domain knowledge and longstanding client relationships, in particular with metal clients in Western Australia". To summarise, the Nitro Solutions acquisition gave RPMGlobal a solid ESG framework with skilled and experienced staff, while the Blueprint acquisition increased the division's talent pool while also granting the new ESG division a beachhead in the vital market of Western Australia.

Strong growth ahead

While the market has not provided any consensus estimates, we do have RPMGlobal's 25 November 2021 FY22 year-to-date software license sales update. According to this update, the company generated $20m in Total Contracted Value (TCV) during the period, an increase of 217% year-over-year. This includes $1.2m in all-important perpetual contracts (140% increase). RMPGlobal has reported that, as of 25 November 2021, it has locked in $77.7m in pre-contracted software subscription revenue and $25.4m in ARR. Therefore, with RPMGlobal just getting started, we believe the company's trailing 12-month 7.2x EV/Revenue multiple is well within reason. So, four stars from us and be on the lookout for additional contract wins.

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Share price chart

Source: Tradingview

The three musketeers of cinema

FY20 was a tough year for Vista Group International, with an EBITDA loss of NZ$24.8m. However, this is hardly surprising given Vista's business, which is broken down into three main divisions: AGC, cinema and Movio.

The cinema division generated the majority of revenue in 1HY21 at NZ$31.5m through selling Vista's cinema management software and its Cloud-based Veezi product. The Veezi product is specifically designed for smaller scale cinemas that might not have the capital or space to run major software products. Included in this division is also movieXchange (a global platform for real-time distribution of movie media, tickets and showtimes) and Share Dimension (the parent company of Cinema Intelligence, which provides analytics to operators). Lastly, it is important to note that this division also includes maintenance revenues from Vista China. Despite all of these different sources of revenue, most revenue from this division is generated through recurring sales of the software products, NZ$25m in 1HY21.

The Movio division includes the Movio Cinema and Media products. Basically, these media products provide clients with additional data on their campaigns and operations. In 1HY21, this division generated NZ$6.5m, the vast majority of which was recurring (NZ$6.3m).

AGC's earnings are generated through the company's ownership of Maccs (movie distributor), Powster (digital creative studio), Flicks (Australian cinema and streaming guide) and Numero (box office number provider). These businesses generated NZ$6.5m in 1HY21 (ended 30 June 2021), but since none of these businesses generated revenue above 10% of the company's total annual revenue, they are grouped in the Additional Group Companies (AGC) segment.

A changing situation

It should be obvious now why FY20 was a tough year for Vista and why 1HY21 saw the company rebound so quickly into profit (EBITDA NZ$6.4m). The film industry was one of the main areas to get smacked by COVID-19 and while there has clearly been a significant recovery, COCID's new Omicron strain shows that we're not out of the woods yet. The main question is whether movie-goers will be coming back to the theatres. We are not certain that they will and we believe it is unlikely that the FY21 and FY22's full year results will see a return to pre-COVID-19 levels.

Three significant valuations

All three analysts who cover Vista believe the company will return to profit in FY21, with the low estimate putting EBITDA at NZ$4.9m and the high at NZ$12.2, with the median at NZ$7.7m. So, analyst estimates are all over the place. But FY21 is basically over and from a valuation perspective, EBITDA growth in FY22 and FY23 is far more relevant.

Currently, those same three analysts expect FY22 EBITDA to grow 147% on average, to NZ$19m, followed by 58.5% average growth, to NZ$30.1m, in FY23. When we drill down into these numbers, we can see that the estimates for these years are also all over the place. In other words, there is a lot of uncertainty around the potential recovery of the cinema industry. Seen in that light, we believe the company's FY22 EV/EBITDA multiple of 25.6x is just too high for us. So, its three stars in our view.

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A space-bound idea

If there is one thing that we have learned in the last decade, it is that data is king. With machine learning and proprietary algorithms now intelligent enough to determine almost exactly what the average person needs and wants, it was only a matter of time before companies sprung up that utilise data to solve million-dollar problems.

Veriluma Limited changed its name to Houston We Have in December 2019 and then EchoIQ in December 2021 after it built out its exposure to the healthcare sector. EchoIQ owns patented augmented intelligence software that can analyse large amounts of data to provide commercial insights, find and eliminate fraud, and provide solutions to business problems.

MAILOUT + ELVIS is one of the company's primary offerings and is used by healthcare companies to find fraudulent health insurance claims. While the company does not reveal how the software works, it claims it can do everything from automating reports for individual healthcare providers to flagging suspicious insurance claims.

The company also operates APPRAISE, which is similar software that can rank questionable activities to detect fraud better. APPRAISE and MAILOUT + ELVIS work in tandem to automate processes within the healthcare industry and cut back customers' losses from fraud.

The company also operates the Houston We Have software that is designed for intelligence purposes. It has clients ranging from the Australian Information Industry Association to analytics companies, such as Yellowfin, and consulting firms, such as Accenture.

Almost like a space race

The original company was conceived in a commonwealth research centre and was focused on intelligence and military applications from the beginning. The company has had a standing contract with the department of defence since 2012. While defence still forms a significant percentage of EchoIQ's business, its technology can easily be applied to other industries.

At its core, the software takes a hypothesis, describes the relationship between the various variables and then utilises information, opinions and assumptions to assess a potential outcome. It can be applied to everything from mergers and acquisitions to insurance and financial markets.

The problem is that EchoIQ is a small fish in a big pond. While data analytics and intelligence software is a relatively new industry, heavyweight players have a global reach. The most prominent example would be Palantir, the Colorado-based software company that helped the US locate Osama Bin Laden in Pakistan using advanced data analytics. It is currently valued at over US$45bn. Other companies in the space include Cognizant, Tyler Technologies and Splunk, most of which are much larger than EchoIQ and have many more resources to deploy when the competition in the space heats up.

The company has tried to counter this by diversifying its activities. Back in September 2017, EchoIQ acquired Concept Safety Systems, which offers emergency, safety and compliance technology. These products were integrated into EchoIQ's products to enhance their capability for enterprise customers.

In July 2021, the former Houston We Have acquired ECHOIQ, an AI company focused on predicting Aortic Stenosis heart condition. The acquisition would allow the company to access the National ECHO Database of Australia, comprising of patient data for 530,000 people, and have another avenue to profitability. It would also become the basis for the company's name change in December 2021.

Do we have lift-off?

EchoIQ has a path toward FDA approval. In September 2021, it secured funding for a clinical trial to confirm the performance of EchoIQ's AI-based Enhanced Screening Program (ESP) in detecting at-risk patients for the severe aortic stenosis phenotype. Edwards Lifesciences, the US-based healthcare conglomerate, is funding the trial, which will take place in St. Vincent's Clinic in Sydney.

One significant advantage that the company has over its competitors is its focus on Australia. It has a prior working relationship with numerous departments in the Australian government. However, it is clear that the company will require multiple clients to cross the barrier toward profitability. Whether the company can achieve that remains to be seen.

However, EchoIQ has made the old Houston We Have a much more exciting company. In September 2021, it entered into a strategic partnership with Extential Solutions, a cardiology software provider. The partnership aims to integrate ECHOiQ's AI-based screening program with Extential's echocardiogram reporting and data analytics software.

Based on the ~$1m in revenue for FY21, the stock is currently trading at 59x those revenues, which makes it expensive by traditional standards.

However, nothing about the company is traditional and the terms of the EchoIQ takeover indicate that management has high hopes for future revenues. You see, in addition to the $2.5m in cash and scrip they received when the company was sold to Houston We Have, the EchoIQ vendors will receive milestone payments if revenues reach US$5m or US$10m in the next three years. FDA approval may be instrumental for that and that may take a while. But if and when those revenues come through, it's bound to be high margin revenue.

So, while EchoIQ is certainly a high-risk proposition, we're inclined to give it four stars based on the upside potential in the longer run. But we don't think this one is for everybody.

Pitt Street Research Pty Ltd

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