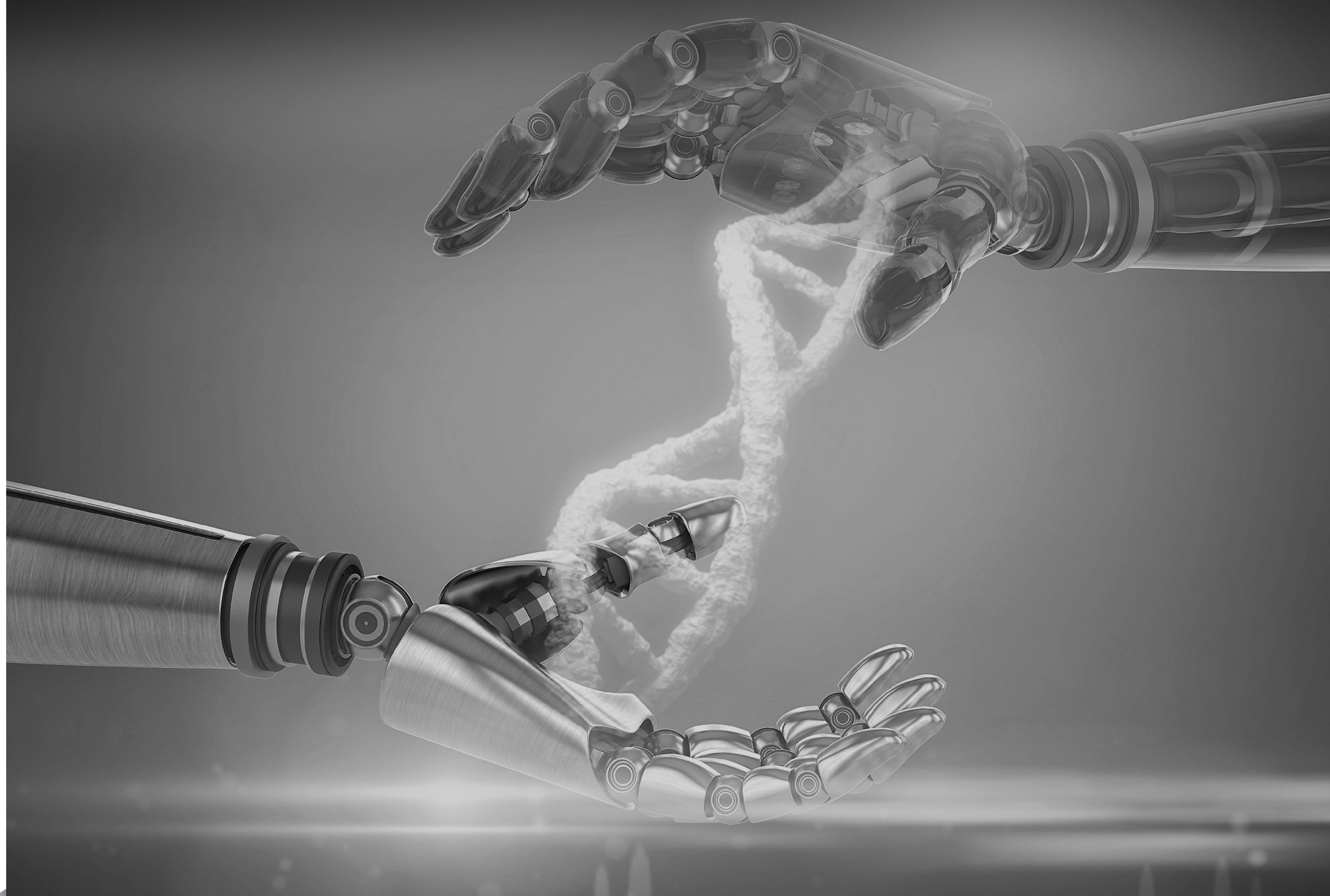
STOCKS DOWN UNDER

1 MARCH 2022

Emerging Stocks Down Under

> *Human resources are like natural resources; they're often buried deep. You have to go looking for them, they're not just lying on the surface.*

- Sir Ken Robinson (1950-2020), British academic & author



LIVEHIRE

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Stocks Down Under rating: ★★

ASX: LVH
Market cap: A$113.9M

52-week range: A$0.19 / A$0.48
Share price: A$0.385

Few tech companies have been left unscathed by the recent correction, but Livehire was one of them. The Melbourne-based company, which provides recruitment and employee integration software, is sitting slightly higher than when we last covered it back in August 2021 . Its investors are undoubtedly pleased that the company is holding up for now and excited about the company's opportunity as the so-called 'Great Resignation' unfolds. But we are still concerned that it is not forecast to be EBITDA positive until FY24 and another capital raise may be needed before then.

Share price chart

Source: Tradingview

HR technology

Livehire was founded in 2011 and listed on the ASX in mid-2016 at 20 cents per share after four earlier private funding rounds. The company is an "HR tech" company that aims to facilitate the hiring process - working with companies and job seekers. It was founded by Antonluigi Gozzi and Mike Haywood. The pair are still with the company and own just over ~15% between them, but the CEO is Christy Forest and the chairman is Michael Rennie.

Livehire's product is a cohesive talent acquisition package that organizes and automates huge parts of the talent acquisition process. Livehire can not only help with onboarding new people, but also identify internal hiring opportunities and help former employees in their career search through talent communities. The platform is of particular benefit to larger organisations and corporations that need to conduct mass hiring. Livehire generates revenue from one-off direct-sourcing contracts and on a SaaS (Software as a Service) basis.

The company has a total of 154 clients across Australia and North America. In Australia, its clients include Volvo, Endeavour Group, Hudson, Australian Military Bank and the Victorian and Queensland state governments. The company has made it a key priority to expand in North America during 2022. It has a partnership agreement with American workforce management company Workforce Logiq and a referral partner agreement with recruitment advisory firm Banyard. It says it is on track to deliver ~36 clients by the end of FY22 and its direct sourcing quarterly revenue was up 124% year on year.

Who said quitting was a bad thing?

The company is hoping to benefit from two workplace trends. The first is the shift of firms towards automated recruitment processes. According to Staffing Industry Analysts, 60% of businesses surveyed are looking to implement some form of managed direct sourcing. The second is the so-called "Great Resignation" - a trend that has led to workers quitting their jobs at historic rates. The movement has not been as evident in Australia, but that is expected to change this year.

ELMO Software (ASX: ELO) estimated last month that 31% of Australian workers plan to quit their current job this year. Another study, conducted by recruitment study Hays last year, also found that roughly one third of Australian workers would leave their jobs. The latter report also mentioned that over half of the workforce is unsatisfied with its current employer and that companies need to find ways to increase employee retention. This is because the pandemic has led to people re-evaluating their work situations and broader lives.

The anticipated rush of employees to quit has led to certain employers taking proactive steps to minimise exits by increasing worker perks, including flexible working hours and locations, hoping that their company will be desired more highly by prospective employees. This trend hasn't hit Australian shores just yet, but represents an ample opportunity for Livehire to capitalise on when it arrives. By allowing organisations to build talent pools and enabling the onboarding process to be conducted remotely, businesses can speed up the process and save clients' time.

The right place at the right time

Livehire was criticised at the time of listing for its lack of revenues, recording $135,570 for the year ending December 31, 2015, and a net loss of over $2.1m. By FY21, it had recorded over $5.5m in revenue, $4.2m in client EACV (Estimated Annual Contract Value) and $3.4bn in salary value of hires. Although Livehire roughly halved its operating cash burn, it isn't yet earnings positive, burning over $6.5m in cash annually and closing with a cash balance of $14.4m at the end of FY21. In the first half of FY22, it burnt another $3.1m leaving it with $11.3m in cash on 31 December.

There's little doubt that the market opportunity is significant and that the company has potential, but in an environment of rising interest rates, it is difficult to see investors continuing to tolerate negative EBITDA companies – at least for as long as they have in the past decade where interest rates were going in the other direction.

Although Livehire has a clear target date for EBITDA positivity, only time will tell if the company can reach it by FY24. And at current cash burn levels, it will inevitably have to raise capital before then. The company's recent quarterly report indicated it would be ~5.5 quarters before further capital was needed. We also reiterate our view, expressed last August, that although the platform would benefit larger organisations, we are less certain of the benefit for smaller companies that only hire a small number of people annually. With services such as LinkedIn offering access to a very wide talent pool - albeit with a less tailored package - it is difficult to see the extra incentive to spend on a platform like Livehire. So, it's two stars for now.

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