



ASX Small Caps Stocks Down Under

📄 *Data is the new oil.* 📄

- Clive Humby (b. 1955), British mathematician



NUIX

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Stocks Down Under rating: ★★ ★

ASX: NXL
Market cap: A\$426.8M

52-week range: A\$1.21 / A\$6.00
Share price: A\$1.35

You'd be forgiven for dismissing the phrase 'data is the new oil' given the recent rise in oil crude prices and the fall in tech giants' share prices. But data is still valuable, and Nuix is one of the few ASX companies that sorts through the mountains of data that the world generates. Unfortunately, it is also one of the most controversial companies, having plunged from its IPO price after missing guidance, being investigated by ASIC over its prospectus forecasts, and replacing its management. Will things improve?

Share price chart



Source: Tradingview

The Rise

As we articulated when [we last covered Nuix in March 2021](#), there is an exponential amount of data in the world, and companies need to sift through it for insights, whether that data is from emails, videos, social media or something else. Nuix is one company that can help. It was founded in 2000 by David Sitsky, who remains the company's chief scientist.

Nuix owns an algorithm that allows unstructured data to be made searchable and provides the structure for more elaborate analysis. It was first developed as a use case for an Australian government agency but has expanded into a broader forensics service called Nuix Engine, used by over 1,000 customers in 78 countries.

The company's self-proclaimed vision was to "find the truth from any data in the world" and it boasted of being used in high profile cases such as the Panama Paper and the Royal Commission into Banking and Financial Services. The Panama Papers totalled 320,166 text documents, 1.1m images, 2.15m PDF files, 3m database excerpts and 4.8m emails. If you were to print this all out with 2,000 characters per page, the final document would be 650m pages long. Despite it being one of the largest leaks in modern history, it was only made by a small law firm in Panama. How much data would a major law firm like Minter Ellison or Freehills have on their servers?

The Fall

Nuix was listed on the ASX in late 2020 at \$5.31 per share and enjoyed a spectacular run to \$11.86. But now it sits at less than a tenth of that – at \$1.32 per share. The drop all started with Nuix's H1 FY21 results in late February 2021, where it reported \$85.3m in revenue, which was ~44% of its full year forecast of \$193.5m. The company said things would improve, arguing its contract completions were weighted to the second half of the financial year and that H1 was hit by reduced US government spending because of the presidential election and subsequent transition period. At the time, [we gave Nuix three stars](#), liking the product but unsure if the downgrade was a one off or worse was to come. Sadly, it was the latter.

In autumn 2021, Nuix downgraded its guidance twice in less than six weeks, blaming the timing of the closure of upsell opportunities and the shift of clients from module to SaaS subscriptions. The move to SaaS was good for the company in the long run but in the short run would be deleterious to revenues and Annualised Contract Values (ACV). Neither downgrade was excessive, but the mere fact that there were multiple cuts led to concerns about the governance of the company and lack of visibility. This was particularly the case with the second downgrade, coming days after a Fairfax investigation into Nuix's culture and governance. By the year's end, CEO Rod Vawdrey, CFO Stephen Doyle and co-founder Anthony Castagna were gone, and the company was slugged by multiple shareholder class actions and ASIC investigations.

Is there hope now?

Fast forward to March 2022, and there is arguably some hope for shareholders. ASIC has dropped its investigations into Nuix's prospectus and pre-listing financial statements. Former Infomedia boss Jonathan Rubinsztein has stepped into the corner office as the new CEO. And the company's 1H22 result was favourable, with revenue only down 1.5% on 1H21 and ACV growing 1.7%. That's the good news.

Now for the bad news. ASIC is still examining Nuix's market disclosure since listing plus allegations of insider trading against ex-CFO Stephen Doyle and his family. Multiple shareholder class actions remain before the courts. Nuix warned these costs were weighing on profit margins, and this was likely to continue for the rest of the year.

Looking to consensus estimates, Nuix is expected to have \$176.2m in revenue and \$57.2m in EBITDA for FY22, while \$197.4m revenue and \$75.6m EBITDA for FY23 – representing growth of 12% and 32% respectively. On those numbers Nuix is currently trading at just 5.5x EV/EBITDA for FY22 and 12.6x P/E. But we would note the company's estimated revenues for FY23 are barely over its prospectus forecast for FY21 (\$193.5m).

Is Nuix a buy now?

There's little doubt Nuix's technology has significant underlying value and purpose. We would also note some technical analysis trends (such as the RSI and MACD) show the stock may have bottomed out, and arguably the drop over the summer was more to do with the market sell-off rather than the company's individual issues. It is not unprecedented for a substantially sold down IPO to gradually recover and flourish - Collins Foods (ASX: CKF) is one example. Finally, the company's valuation is now very reasonable for a tech stock and directors, including Rubinsztein, have recently been buying shares on market. For investors who think that Nuix has turned the corner with the 1H22 result, we think this stock is one to pay attention to, given the low EV/EBITDA multiple.

However, we think most investors will be concerned about the prospect of continuing legal dramas. Nuix has a healthy cash balance of \$57m but if adverse findings were made against the company by the courts, this figure could be squeezed. Also, Nuix will have a sentiment problem for a while yet. To paraphrase Warren Buffet: it is more difficult and longer to build a reputation than destroy it. Considering all positives and negatives, it's three stars from us.

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