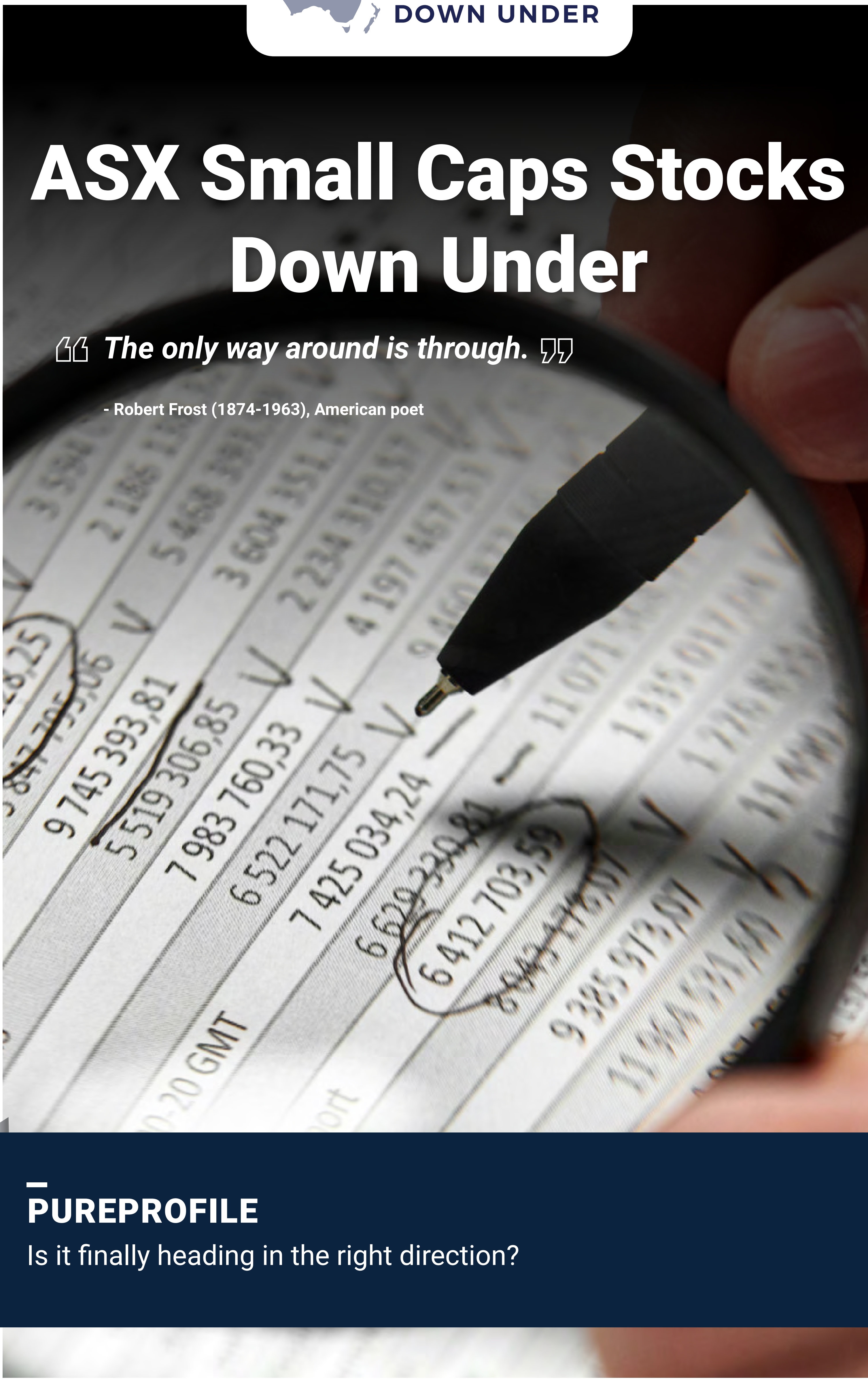
STOCKS DOWN UNDER

27 MAY 2022

ASX Small Caps Stocks Down Under



"The only way around is through."

- Robert Frost (1874-1963), American poet

PUREPROFILE

Is it finally heading in the right direction?

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Stocks Down Under rating: ★★

ASX: PPL
Market cap: A$55.3M

52-week range: A$0.025 / A$0.088
Share price: A$0.005

The seven years Pureprofile (ASX: PPL) has been listed have been tumultuous for shareholders. The business listed with a long operating history and a record of profitability, but was let down by missing guidance and the departure of its founder. Pureprofile has been trying to recover ever since amidst market scepticism. Is there light at the end of the tunnel for shareholders?

Share price chart

Source: Tradingview

Led by a good founder, until he left

Pureprofile is a data technology company that provides online research and digital advertising services for agencies, marketers, research and publishers. It serves a wide range of clients, including IAG, Medibank, UberEats, Flybuys and Toyota, helping them understand their audiences and make better business decisions.

To illustrate how it works and what is in it for the companies let's look at a partnership it conducted with Business Australia. Business Australia wanted to update their brand and value proposition so hired Pureprofile to help them connect with B2B audiences. Pureprofile leveraged their profile information to identify appropriate audiences, developed an automated and interactive brand tracking study and provided relevant data. As a result of this project, Business Australia saw a 190% increase in new members, a 1,011% rise in website page views and a 28-point increase in its Net Promoter Score.

More generally, when you hear statistics, such as that 48% of Australians are excited about Brisbane being announced as the host of the 2032 Olympics, Pureprofile likely played a part in that.

The company was launched amid the dot-com crash, but survived and by the time it listed on the ASX in 2015 at 50 cents a share, it had built its customer base to about 500 companies across 45 countries and was on solid financial foundations having first generated a profit in 2008. Unfortunately, after beating EBITDA forecasts in 2015 and meeting them in 2016, it failed to meet them in 2017 and revenue growth slowed.

In early 2018, founder and CEO Paul Chan departed telling shareholders he had achieved his goal to "empower consumers" by "giving them control of their profile as an asset". Right though he may have been about himself personally, shareholders didn't like the implicit message that there was nothing more the company could achieve. The company also continued to perform poorly and sent shares spiralling down – going below 1 cent during the Corona Crash. But in late 2020, the company recapitalised, reduced its debt and hired a new CEO in Martin Filz. Its share price has gradually recovered since then, now sitting at 5.0 cents, which capitalises the business at ~$55.0m.

Returning to growth, but momentum slowing

With the recapitalisation completed, FY21 was a better year than FY20. In FY21, the 12 months to 30 June 2021, it generated revenue of $30m (up 24% compared to the prior corresponding period), EBITDA of $3.1m (up 124%) and a profit of $2.8m (compared to a $9.7m loss in FY20). Pureprofile recorded a 71% jump in surveys and a 58% jump and SaaS clients. It exceeded its guidance and doubled its cash balance through positive cash flows.

The market liked these results, but not its 1HY22 results. Revenues grew 44.3% to $20.8m and EBITDA grew 53.4% to $2.5m. But it made a net loss after tax of $523,181 - it was in the black prior to tax by $676,576. Yet the income tax expense of $30,478 and more importantly its 'share based payment expense' of $1.04m sent it into the red.

Looking to 3Q22, the share price fall continued. Again, revenue grew by ~40%, but EBITDA only grew 6% and amounted to a modest $0.5m. More critically, the company's EBITDA margin fell from 12% in 1HY22 to 5% in 3Q22. The company attributed this to investments that it said in the long term would help long term growth and margins.

There are some things to like, but we think there are better stocks out there

Pureprofile has reiterated its FY22 EBITDA guidance of $4m-$4.4m, which would be 29-41% higher than FY21. Consensus estimates for FY23 forecast $8.7m EBITDA, which would be roughly double FY22. Revenues for FY23 are forecast to come in at $48.7m, which would be up 15% from FY22. And the stock is trading on reasonable multiples – at 6x EV/EBITDA and 11.8x P/E for FY23. But this is assuming a doubling of EBITDA for FY23.

In the current market with rising interest rates and scepticism about small cap stocks generally (except in resources) we are not sure that it can double its earnings in a year, and we struggle to give Pureprofile the benefit of the doubt.

We would certainly rather be invested in this company than in Nuix (ASX: NXL), one of the ASX's other companies seeking to derive value from data and information but ensconced in legal dramas. We also think ESG investors will love this company for its heavy emphasis on company culture – boasting high levels of employee satisfaction (86%) as well as ethnic diversity (with 35 nationalities across the group even though there are just 155 staff). But in the current bear market for small caps or any companies undertaking margin-sacrificing investments we think there are better options, even in the tech sector.

So, we think Pureprofile is a two-star stock at the moment, but if the market sentiment around small cap stocks improves, it might be one to watch.

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