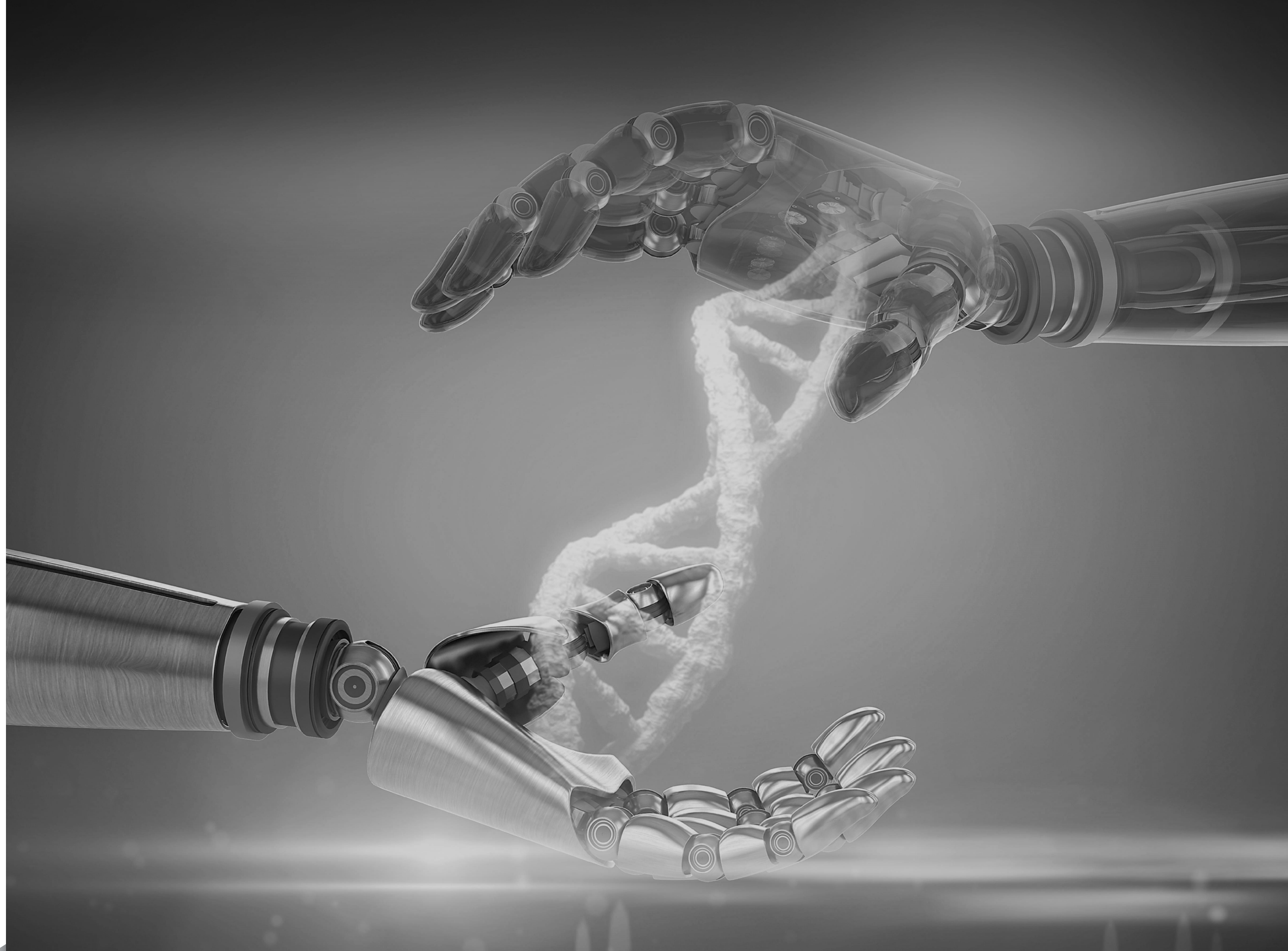
2 AUG 2022

Emerging Stocks Down Under

The report card for a commercial enterprise is making money.

- Sheldon Anderson (1933-2021), business magnate and philanthropist



BEAMTREE

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Stocks Down Under rating: ★★

ASX: BMT
Market cap: A$78.3M

52-week range: A$0.22 / A$0.70
Share price: A$0.30

It's been over 18 months since we last covered Beamtree (ASX: BMT), formerly known as PKS Holdings. This company listed in March 2020, but changed its name after buying and consequently integrating two smaller MedTech companies. Beamtree develops and owns various pieces of software for managing healthcare data. With Australia's health system struggling, we think there is space for software, such as RippleDown, that can increase efficiency and reduce human error. But can investors be persuaded to believe Beamtree's mission before it is profitable?

Share price chart

Source: Tradingview

Data is the new electricity when it comes to healthcare

Beamtree's flagship technology is RippleDown and it is sold in two different products. The first is RippleDown Expert, which offers a whole slew of features designed to increase the efficiency and effectiveness of healthcare facilities, including real-time monitoring, alerts and data mining of its clinical database. The second is RippleDown Auditor, which allows pathologists to perform data integrity audits in real time – including checking data entries, billing and suspected errors. Beamtree has other software too, including Risq, Picq, Q Coding Platform and CodeXpert, which accomplish similar objectives.

In doing all this work with data, and doing so across 23 countries, the vision of Beamtree is to improve healthcare outcomes. It does so by providing real-time analysis, interpretation and, consequently, a reduction in errors and increased efficiency. These products are sold in a SaaS model (Software as a Service) and hangs it hat on winning new major contracts, plus renewing existing contracts.

The company has no problem with the former, with a 99% client retention rate. It has contracts with private healthcare companies, public health systems and even governments. For instance, it has been engaged by Saudi Arabia to review the quality of data in all Saudi public hospitals, in a deal worth $2.5m. Other clients include Abbott, Australian Clinical Labs, Philips and ThermoFisher in the private sector, along with NSW Health and SA Pathology in the public sector.

Revenues are growing, but so are expenses

FY21 was a solid year for the company, recording 109% growth in revenue to $8.9m. Its Annualised Recurring Revenue (ARR) came in at $6.7m, up 15%. In 1HY22, it grew revenues 91% from 1HY21 to $7.1m and its ARR to $16.8m, up 160% year on year thanks to acquisitions and autonomous growth. Since the start of CY22, Beamtree has won contracts representing $16m in total value and $3m in revenue per annum.

But, just as its revenue and product range has grown, so have its expenses. When we last covered Beamtree it was profitable – by $383k in FY20. But in FY21, it swung into a $384k loss. The biggest catalyst was a 258% rise in employee costs (from $1.2m to $4.4m) due to a significantly increased headcount. By 1HY22, it had blown out to a $1.9m loss after tax. Obviously, costs were destined to rise given it the number of acquisitions it has undertaken. But companies hope that eventually synergies will be realised that will bring down costs, drive up sales, or both. The latter has evidently occurred, judging by Beamtree's revenues, but the former has not.

Shares in Beamtree have more than halved since peaking at 60 cents in September last year. But with a market cap of $67.2m, it has nearly tripled since its IPO (albeit mostly through acquisitions and capital raises). If you assume that for the full year FY22, Beamtree will double its first half-yearly revenue of $7.1m to $14.2m, it is trading at an EV/Revenue multiple of 4.3x - it's EV is $61m given it has a cash balance of just over $6m.

Is Beamtree a buy now?

The relatively low EV/Revenue multiple makes Beamtree hard to resist. But to state the obvious, it is still an early-stage company and that's before you consider all the acquisitions it has undertaken since its listing. To state the bleeding obvious, investors are unlikely to embrace this company until it becomes profitable. And even though it has a near-perfect renewal rate, it may take just one client to not renew for alarm bells to be triggered. Keep in mind that the latter is a possibility for any software stock.

We raised concerns last time we covered the company that even though it had a number of big-name customers, it was reliant on too few of them. This problem has arguably lessened given new client wins in the past few months. Given the opportunity facing this company, the clients it continues to win and have stuck with them, we think there is a lot of potential upside in this one. But we don't think it will be realised until it can sort out its cash flow issues. This may well come once synergies from all the acquisitions are flowing through, but the synergies aren't there – yet. Granted, cash flow is an issue for many emerging companies, but the issue is compounded by the fact that this was a profitable company that appears to have gone the other way. Therefore, it's two stars for now.

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