STOCKS DOWN UNDER

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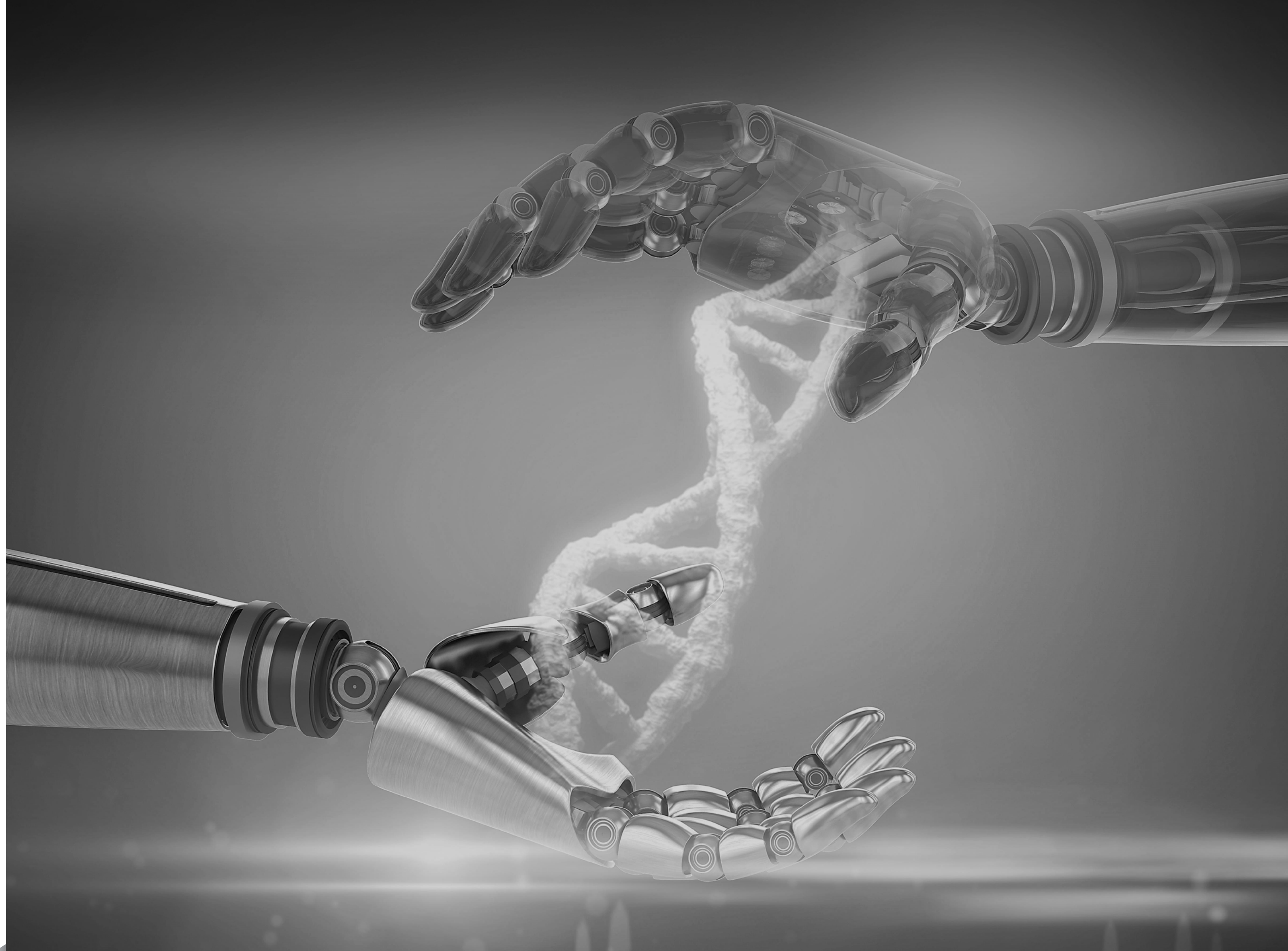
# Emerging Stocks Down Under

*"Without strategy, execution is aimless. Without execution, strategy is useless."*

**- Morris Chang (b. 1930), Founder & Chairman of Taiwan Semiconductor Manufacturing Company**



## WHISPIR

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**Stocks Down Under rating:** ★★★★

**ASX: WSP**
**Market cap: A$82.7M**

**52-week range: A$0.70 / A$2.95**
**Share price: A$0.705**

There's nothing like an ASX company with a big-name partner, and in this edition we're looking at Whispir which is in a major partnership with Telstra. Whispir provides cloud-based communication workflow management platforms, which help its clientele manage, automate and optimise their communications with staff, customers and other stakeholders – be it through SMS, voice, email or social media. This business' multiples look incredibly cheap, before you even consider its partnership with Telstra. But is this partnership actually a thorn in its side?

### Share price chart


*Source: Tradingview*

### Penny change all adds up

Whispir's history spans back to 2002, founded by current CEO Jeromy Wells. After a Series A Funding round in 2016 (which Telstra Ventures invested in), the company listed in 2019 at $1.60 a share, having raised $47m. It charges users a monthly fee for the use of the platform, along with a small fee per message and per recipient (it adds up when you consider messages can be sent to tens of thousands of people at once). Sometimes, this can be one-way messaging but it can also work both ways, allowing recipients to respond as circumstances require.

Whispir has a relationship with Telstra as an investor and channel partner, enabling Telstra's business customers to add on its services as part of their package. This is both a good and bad thing. The good news for Whispir is it attracts more business. The bad news is that Whispir has a lower gross margin because it has to pass on a portion of its SMS-related revenue to Telstra and other partners (another being Singaporean telco Singtel). This means its gross margin is 60% while many other SaaS companies can generate higher revenues. Whispir does not disclose the margin but Shaw & Partners analyst Jules Cooper told the AFR last month this could be 15-20%.

After lagging for the first 9 months or so of listing, Whispir took off after the Corona Crash after it was hired by the Victorian government to interact with COVID patients and close contacts of patients. Obviously, investors liked the deal but arguably thought it would be the tip of the iceberg for business as businesses shifted to remote working. It hit an all-time high of $4.72 in mid-July 2020 but has been in terminal decline ever since.

### Can’t get in the black?

Why has it fallen from grace to barely over 70 cents today? Let’s compare its results for FY22 compared to two years ago. In FY20, it recorded $39.1m (up 25% and 3% ahead of prospectus forecasts) and negative EBITDA of $7.3m (better than the prospectus forecast of -$9.4m). It had a net cash balance of $15.2m, 630 total customers and customer churn of 7%. Two years on, it made revenues of $70.6m and an EBITDA loss of $10.6m (after losing just $3.8m in FY21). It has $26.1m in cash, over 1,000 customers and a churn rate of 2.1%.

Clearly you can’t blame its revenues, customer numbers, balance sheet or churn rate (the latter can be a problem with SaaS businesses). It appears investors are not a fan of its EBITDA negativity. But taking a deeper look, we think that problem has been compounded by this business breaking its promise to reach the black multiple times before. In June 2018, the AFR reported Whispir was raising $10m in pre-IPO money and told investors that [it] expects to be break-even next year’. The company’s IPO prospectus said in would reach breakeven in June 2020, a point repeated in the company’s blog on the day of its listing. In its FY20 and FY21 results, nothing about breaking even was mentioned. In its FY22 results, no guidance was provided but it promised to be EBITDA positive in the second half of FY23 and be cash flow break even during FY24.

### Is it different this time?

Consensus estimates forecast $75.8m in revenue and -$5.1m in EBITDA, an improvement of 7% and 52% respectively. Looking to FY24, $91.8m in revenue and $2.5m in EBITDA with revenue being 22% up from FY23. On an EV/Sales multiple it is 0.8x for FY23 and 0.7x for FY24. It has an EV/EBITDA multiple for FY24 of 24.8x.

For comparison’s sake, we note that Technology One (ASX: TNE) is 17.8x for FY24, Data #3 (ASX: DTL) is 12.6x and ReadyTech (ASX: RDY) is 8.6x. All of these companies are profitable and have EBITDA growth of 10% or more. We also note that Whispir has not expanded into the US to the extent it arguably could have, with just $1.8m revenue there in 2022. There is far more limited growth capacity if its restricted just to Australia. And given its past record, investors have the right to be skeptical about taking sell-side analyst consensus estimates as akin to fait accompli fortune telling in relation to this company.

### Why we’re backing it

All this said, we think this is four stars for the following three reasons. First, we think despite its EBITDA negativity, it has plenty of cash with a balance of $26.1m (more than 100 quarters worth according to its most recent quarterly report) and no debt. Second, considering it reports quarterly, there is scope for a re-rate if investors can see its finances are improving. And third, we are quite attracted by the stickiness of its customers and revenues. It has a very low churn rate and Annual Recurring Revenue of $65.4m.

This said, we acknowledge more risk-averse investors may prefer SaaS companies such as TechnologyOne (ASX: TNE) and ReadyTech (ASX: RDY) that are profitable but trade at lower multiples.

**Pitt Street Research Pty Ltd**

3 Spring Street, Sydney, NSW 2000, Australia