STOCKS DOWN UNDER

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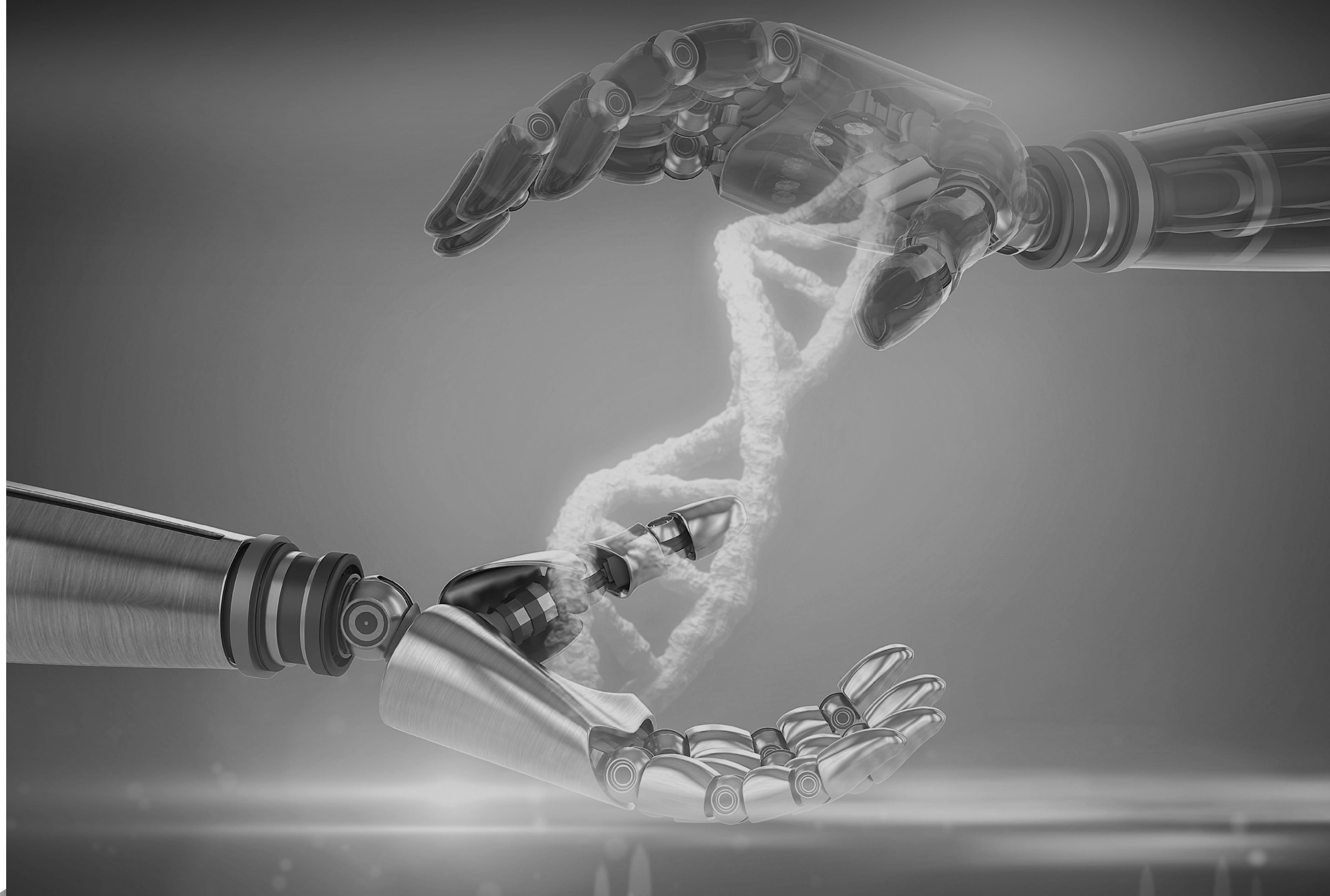
Emerging Stocks Down Under

Choosing stocks without any idea what you're looking for is like running through a dynamite factory with a match.

- Joel Greenblat (b. 1957), Gotham Funds partner, Colombia University professor



INFOMEDIA

In the driver's seat

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Stocks Down Under rating: ★★★★

ASX: IFM
Market cap: A$452.8M

52-week range: A$1.07 / A$1.78
Share price: A$1.25

It has been nearly two and a half years since we covered Infomedia (ASX:IFM) when it traded at $1.57 per share. This company provides cloud-based parts and service software to the global automobile industry. It has over 250,000 active users in 186 countries and it has a healthy geographical mix of revenue (37% from the Americas, 32% from the Asia-Pacific and 31% from Europe). The minimal share price change since our last report would suggest it has been relatively uneventful period for the company. But nothing could be further from the truth.

Share price chart

Source: Tradingview

Technology for car parts

First, a brief recap of the company's technology, [which we first outlined in our last report.]() The technology suite allows customers to stay informed and in control of decisions throughout the vehicle servicing process, leading to higher sales and better customer satisfaction. There are four key products. There's MicroCat, a suite of EPC parts solutions focused on driving parts sales, SuperService that provides service quoting and vehicle inspection solutions, InfoDrive that provides vehicle and customer lifecycle management and SimplePart that grows sales of automaker parts and accessories.

SimplePart was acquired 18 months ago for US$24.5m in an upfront consideration plus an earnout of up to US$20.5m based on the segment's individual EBIT over three years. The deal came nearly a year after the company raised $85m with M&A in mind but had done little to that point. SimplePart had a significant presence in North America, but did not have European or Asia-Pacific customers. Infomedia did, however, and could introduce SimplePart into its global customer base.

Multiple buyout bids, but none prevail

Infomedia has actually lagged the market for the most part since we last covered it. Similar to many ASX companies with an overseas presence, business development activities were impeded by pandemic restrictions. The company was also rocked by the departure of 5-year CEO Jonathan Rubinsztein who ultimately joined Nuix (ASX: NXL). He was replaced by Jens Monsees who most recently came from WPP, but had some automotive experience, having spent over 3 years as Chief Development Officer for BMW in Munich.

The lagging of the company's share price led to expressions of takeover interests, particularly from Texas-based industry peer Solera Holdings and private equity firm TA Associates. After due diligence and meetings with Infomedia management, the company ended up shutting both firms out earlier this month. Management said it was open to future takeover proposals 'that provide appropriate value for shareholders with sufficient certainty of completion in a reasonable time frame'.

For now, it promised to focus on executing the company's strategy and that it would hold an Investor Day before the close of the current quarter. You might suspect there was something that the bidders didn't like that prevented them from closing the deal. We'll never know for sure thanks to Confidentiality Agreements that are part of the takeover talks. But ultimately, Infomedia were the ones who walked away from the talks, not the would-be suitors.

Solid growth forecast to continue

In FY22, Infomedia generated revenue of $120.1m (up 23%) and EBITDA of $24.8m (up 29%). On an organic basis (excluding acquisitions), EBITDA was up 13% and revenue was up 8%. Infomedia's NPAT halved from $16m to $8.2m although this was impacted by $14m of non-cash depreciation and amortisation plus the expensing of earnouts during the period relating to the SimplePart and Nidasu acquisitions (despite the latter deal being completed back in 2018). It has $69m in cash on hand, $147m in net assets and no debt.

For FY23, the company has provided revenue guidance of $131m to $139m, which would be 9% to 16% higher than FY22. No specific EBITDA guidance was provided, but the company promised it would be improving. It paid a dividend of 5.6c a share, representing a yield of 4.6% at the current share price.

Consensus estimates suggest cautious optimism in regard to revenue with $133.9m, toward the lower range of the company's guidance. However, analysts are more optimistic about EBITDA tipping $56.1m, more than double FY22. In FY24, consensus estimates forecast $147.9m in revenue and $65m in EBITDA, which would be 10% and 16% higher than FY23. The company is trading at a low EV/EBITDA of 6x, but at a slightly expensive P/E of 21.4x.

Attractive even if no new takeover bids arise

We think the main risks for this company are those typical to software companies. Namely, the risk of customer churn and competition. Products can become out of date at a more rapid pace than in any other industry. But, judging by the company's growth and popularity in recent years, Infomedia has kept up with customer needs and has the cash balance to undertake further M&A activity. We trust it can keep existing customers and win new ones. Case in point, in late 2020 it won a ~$14m contract with Ford Europe, which switched to Infomedia from a company that it actually part-owned.

We wouldn't be surprised to see new takeover bids for Infomedia in the near future at a significant premium (they'll have to be for management to entertain the bids). But we think it has a positive enough outlook in its existing business to earn four stars from us before you even consider its multiples and possible future expansion of its product suite.

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