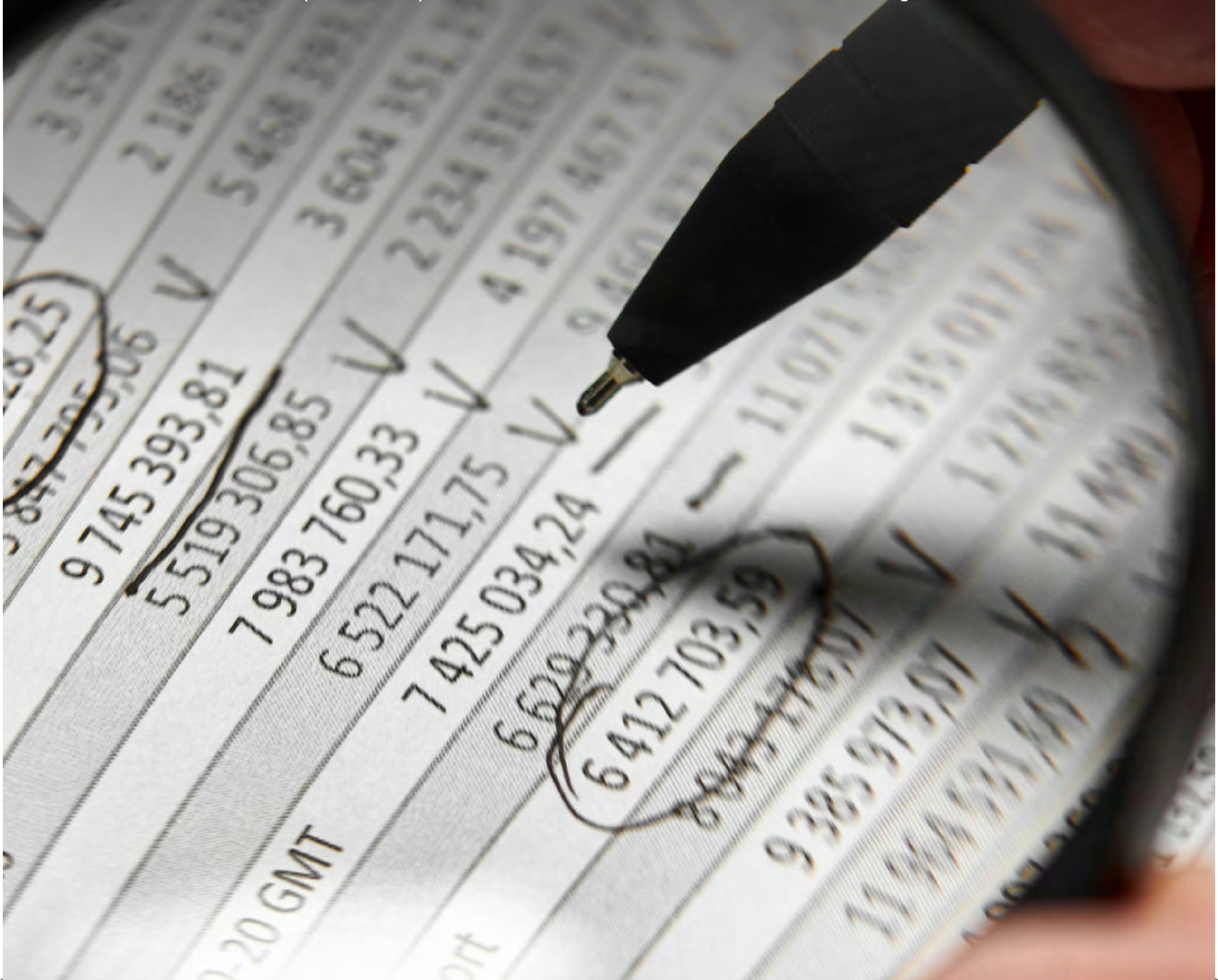
STOCKS DOWN UNDER

2 DEC 2022

ASX Small Caps Stocks Down Under

> *Mighty was the fallen, meet was his ending.*
>
> - J.R.R. Tolkien (1892-1973), Author of The Hobbit and The Lord of the Rings



BRAVURA

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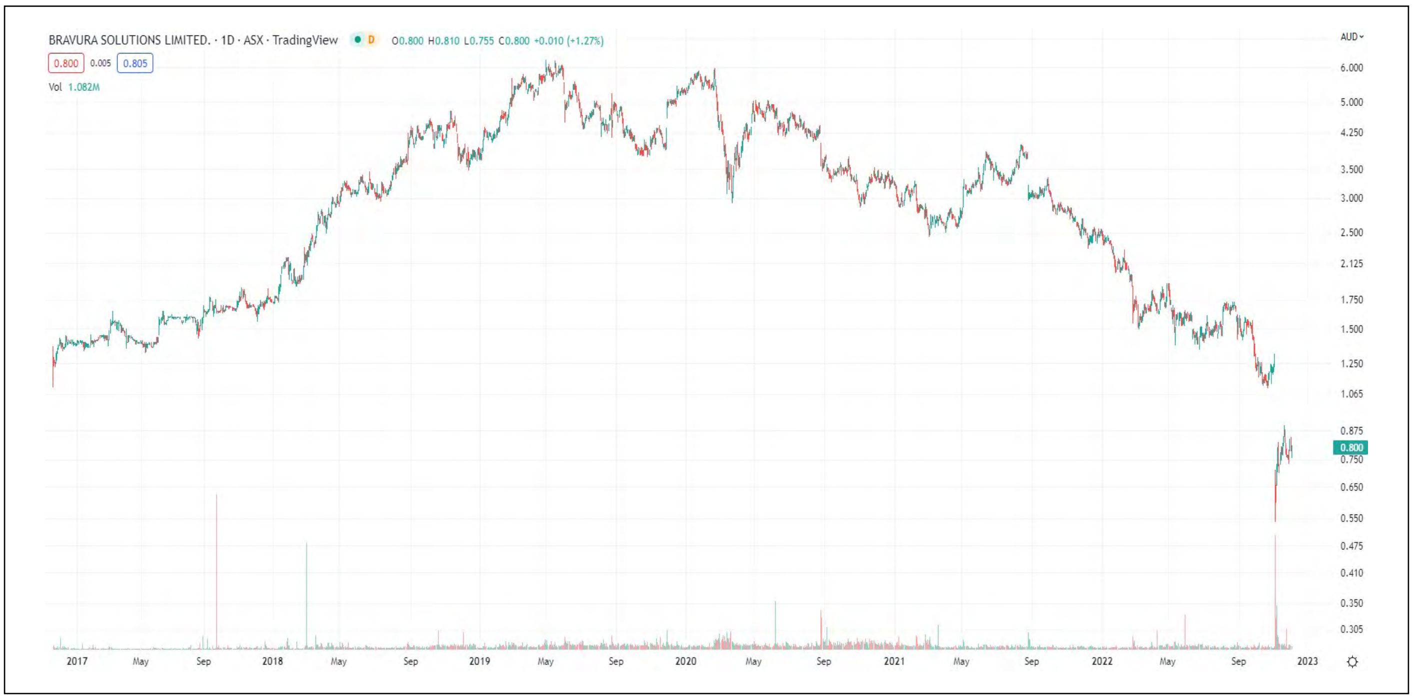
Stocks Down Under rating: ★★

ASX: BVS
Market cap: A$197.4M

52-week range: A$0.54 / A$2.58
Share price: A$0.80

Only a few years ago, Bravura was an ASX 200 company with a near-300% return since its IPO. It's been downhill since early 2020 and just recently the company told its shareholders 'the business will need to be reconfigured', triggering a stock crash of 55%. Where did things all go wrong? Is there upside and, if so, what will it take to realise that upside and how long will shareholders have to wait?

Share price chart



Source: Tradingview

Listed, then de-listed, then listed again

Bravura's corporate purpose is 'to make our customers more successful'. Its customers are major financial institutions, such as super funds, wealth managers and insurers. It provides back-office software to help these institutions minimise risk, operate more efficiently and provide enhanced customer service. Bravura was established in 2004 via a management buyout of the wealth management business unit of CSC Australia.

Bravura's current stint on the ASX is actually its second, having first listed in 2006 before de-listing in 2013 after a buyout from private equity firm Ironbridge Capital. The company relisted in 2016 at $1.45 a share, valuing it at just over $300m. Ironbridge retained a fair stake post-listing and entered into an escrow agreement, but cashed out relatively quickly once it was able to. Investors did not follow private equity's lead, sending the stock to an all-time high of $6.27 in May 2019.

Hit by the pandemic

After nearly reaching $6 again in early 2020, the company has been in decline ever since. As was the case with many ASX companies that had the bulk of their clients overseas, business development was more difficult for Bravura during the pandemic given the impact of COVID-19 in the Northern Hemisphere (particularly the UK, where roughly two thirds of Bravura's business is).

Then, of course, came last month's declaration by management that the company had to be 'reconfigured'. An external review had been undertaken and it found the company had to realign itself to create 'product discipline'. Essentially this means the company had developed its products in every direction without much focus. On top of this, the company slashed its guidance for FY23. After making $45.3m in EBITDA and a $25.7m NPAT in FY22, it is expecting $10-$15m in EBITDA and an NPAT between breakeven and a $5m loss. Shares more than halved in one day after this announcement.

Any hope of a bounceback?

There are seven analysts covering Bravura and their target prices vary from 53c to $1.74. They all agree revenue will grow in the years ahead, albeit slowly. Specifically, they expect $271m in FY23 (up 1.6%) and $287m in FY23 (up 5.9%). However, analysts are more bearish on the EBITDA line. Although Bravura recorded $45.3m in FY22, they expect a 60% plunge to $17.8m in FY23 and for FY22 levels not to be surpassed until at least FY23.

These estimates imply a modest EV/EBITDA multiple of 11x, but a hefty P/E multiple of 82.8x. The company has a long way to go in restructuring itself, cutting cash burn and rebuilding its reputation with investors. And management said there will be no dividends for the foreseeable future.

The best hope for shareholders is a takeover

Management could turn this company around eventually. But we think the far more likely way shareholders will be able to get a return on this company is an M&A deal. The Tech Wreck of 2022 and the low AUD has led to a surprisingly large number of offers and completed deals in 2022. The financial software segment hasn't seen too many recent deals, but it isn't a stranger to them either. GBST was bought by FNZ for ~$270m in mid-2019 and it was transacted again in late 2021 with Anchorage Capital Partners buying it for $250m. Ironically, Bravura tried to take over GBST back in 2019 hoping it could extend Bravura's client base and provide cost synergies. Additionally, Link (ASX:LNK) has been a takeover target for much of this year, but hasn't been able to complete a deal yet.

One sell-side firm covering Bravura is Goldman Sachs, which has estimated an M&A value of $234m (equating to 95c a share) based on a 10x FY24 EBITDA multiple of $21m. Using the consensus number of $25.3m gets $1.01 per share. Bear in mind that fund managers would be familiar with many of Bravura's products and that of competitors, because they use them in day-to-day operations – so due diligence could be shorter than usual. With a closing price of 80c per share yesterday, neither price would imply a very significant premium, but any offer could be higher, especially if any would-be bidder did not want to be sent packing.

Ultimately, it is risky to own a company hoping it will be acquired - there's no certainty a deal will come, let alone that it will be accepted by management and shareholders. There are plenty of opportunities coming out of the Tech Wreck of 2022, but this is not one of them, in our view. Two stars.

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