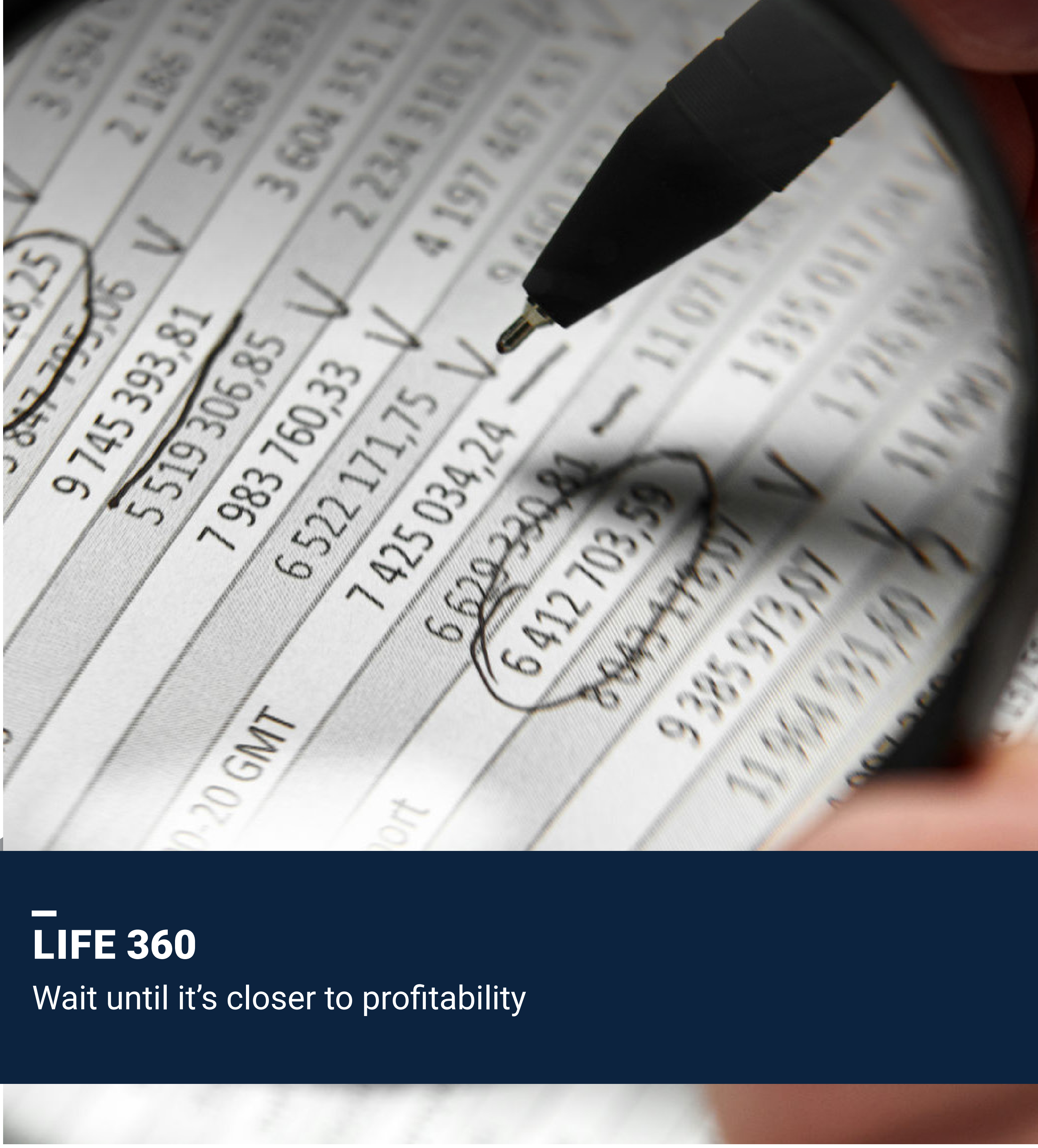
STOCKS DOWN UNDER

13 JAN 2023

ASX Small Caps Stocks Down Under

"Silicon Valley is a mindset, not a location."

- Reid Hoffman (b. 1967), Co-founder of LinkedIn



LIFE 360

Wait until it’s closer to profitability

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Stocks Down Under rating: ★★

ASX: 360
Market cap: A$950.8M

52-week range: A$2.41 / A$8.87
Share price: A$4.89

To say that Life 360’s (ASX:360) history as a company has been interesting would be an understatement. The San Francisco-based company opted to list on the Australian bourse in May 2019. It wanted to list on an exchange instead of raising another round of private capital, but was too small to list on the NASDAQ. Despite enduring pandemic lockdowns and the 2022 Tech Crunch, its market capitalisation has grown by over 30% since listing. It has been a volatile ride for shareholders, however.

Share price chart

Source: Tradingview

Knowing where your children (and things) are

Life360 operates an app that allows parents and children to stay connected. The app’s original premise was for parents to see the location where their children are, an idea that remains its primary capability. Several other features have been added to the platform since the company was founded in 2008. The app can also help children see where their parents are, help family members monitor their movements and even detect traffic collisions that users are involved in. The company’s 2021 acquisition of fellow Silicon Valley tech company Tile diversified the company into tracking things in addition to people. Tile sells small hardware devices that can be attached to items such as wallets and keys. If you’re thinking AirTags, you’ve got the right idea. In the same year, Life360 also acquired Jiobit, a Chicago-based manufacturer of wearable locational devices.

The Life360 app uses the GPS chip in your smart phone. It can not only alert parents, but anyone in a specific ‘Circle’, like other household members and/or close friends. It operates on a ‘freemium’ model, offering a Basic Service for free and two tiers (Gold and Platinum) with premium features. These include free towing of vehicles involved in a collision, ID theft protection, reimbursement of funds stolen through cybercrimes, credit monitoring and travel support. The Gold tier costs US$14.99 per month, or US$99.99 per year, while the Platinum tier costs US$24.99 per month, or US$199.99 annually.

A turbulent tenure leaves the company's user base larger

The pandemic struck less than a year after Life360 listed on the ASX, forcing customers to stay home, which reduced the need for the company's app. But if you look at 360's growth since 2019, you'd be forgiven for thinking the pandemic never happened.

As of 30 September 2022, the company boasts 47m Monthly Active Users (MAU) across the globe, 29.3m of which are in the US, 1.2m in Australia and the other 17.7m in other countries. This figure has nearly doubled in three years, from 24m on 30 September 2019. The company has 1.5m paying users, 80% of which are in the US, and the Average Revenue per Paying Circle (ARPPC) is US$91.84 annually (up 36% in three years).

Revenues are surging, but so are the losses

Because the company uses a calendar year-end, it will report results for FY22 in February. We think these results will be fascinating to see, because, as the company itself has told shareholders, it will provide high visibility on the impact of price increases during CY22.

Life360 issued guidance of >55% core subscription growth (excluding recent acquisitions such as Tile), US$225-$240m in revenue and an EBITDA loss of US$37-$41m. Consensus estimates for FY22 expect US$231.4m in revenue and negative EBITDA of US$39.6m. This implies revenues would be 105% higher than FY21, although the EBITDA loss would be triple that of FY21. The company's cash balance was US$44m as at 30 September 2022.

Looking to future years, the company expects to become EBITDA and operating cash flow positive in 3Q23. Consensus estimates expect a lower EBITDA loss of US$8.4m in FY23 followed by an EBITDA profit of US$19.2m in FY24. Revenue estimates expect solid growth in the years ahead - 40% growth in FY23 (to US$323.4m) and 21% growth in FY24 (to US$391.1m).

The 4 analysts covering the stock expect growth in the next 12 months - the 'lowest' target price is $7.60, a 52% premium to yesterday's $4.98 closing price, while the highest is $12.87 (up over 150%). The company's lack of profitability until at least FY24 means we have to use EV/Revenue as a valuation metric for FY23. The company is currently trading at 1.9x for FY23 and 1.5x for FY24, which we believe is quite compelling for such a high growth company. Its EV/EBITDA and P/E multiples for FY24 (the year it is expected to reach EBITDA and cash flow positivity) are 31.3x and 61.5x respectively.

One thing worth noting about Life360 is that it can be volatile during reporting season, eerily similar to Appen (ASX:APX). The difference between Appen and Life360 is that the latter sometimes manages to impress investors – but not always.

Prospects are good in the long-term, but not in the short-term

As with other tech stocks, risks for Life360 include economic conditions, regulation, potential cybersecurity breaches and the war for talent among tech giants and unicorns. One risk specific to Life360 is that it might leave the ASX. Either it could list on the NASDAQ, or it could be merged with or acquired by another entity. The company has alluded to these potential moves several times, most recently in November 2022 when it completed its most recent capital raising. Every time the company has hinted at this, it cited higher tech valuations in the US.

But let's just look at Life360 as a going concern on ASX. Starting with the positives, we like the company's track record, significant user base and long-term growth prospects. The negatives we see are the lack of profitability and the prospect of a share price drop at its FY22 results in February, given the loss is all but certain to be higher than the year before. We acknowledge that the company has issued guidance confirming this and investors might think this will soften the blow. But there is the risk that the EBITDA loss will be higher than indicated. Shareholders also need to remember that the company has not issued guidance for its net loss. It is the latter figure that will likely spark a sell-off if and when it comes in below the whisper numbers – eerily similar to 12 months ago when the company released its results for FY21.

As a result of these factors, Life360 gets two stars for now. We might be willing to reconsider our rating later this year, however, when we have a firmer idea on whether or not it can pass on price increases to subscribers (without losing a significant number of users) and when the company is likely to be EBITDA and cash flow positive. Even if it doesn't reach those milestones by that time, we think it will be at least closer than it is now.

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Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!