



Infomedia – the little Aussie battler

by Roger Montgomery

Key points

- *Because it is an illiquid stock, brokers cannot generate a great deal of brokerage from recommending it, so they don't.*
- *In the first half of financial year 2014, the company revealed solid revenue growth in every geographic region in which it operates.*
- *The company recently lost a major client, which will hit earnings, but it is focussing on expanding another product in the US.*

Infomedia (ASX:IFM) is a small Australian company, determined to be a winner on the world stage and another Australian export success story. But Infomedia is less well-known to investors than the big banks, big miners or Telstra.

This is, in part, because it offers investors an illiquid stock. In turn, the illiquidity means that brokers cannot generate a great deal of brokerage from recommending it, so they don't. And they don't bother allocating resources to covering the company either. Another reason to argue for the market's hitherto indifference is that management had for a long time neglected the business, which was in decline.

Perhaps the lack of deeper analysis and broader broker coverage that contributes to the price being cheaper than it otherwise might be in this low interest rate and high P/E environment. It's also true that recently the company gave investors a scare – more on that in a moment.

The offering

Infomedia's software products and services are used

by the service centres of car dealerships in Australia, and now Europe and the United States. Servicing cars is the most profitable part of car dealerships so any tool that can raise the revenue of the division and make it more efficient is welcomed with open arms. Infomedia's Superservice software helps car dealerships manage their parts and service operations more efficiently and profitably by reducing costs and assisting sales by suggesting upselling opportunities.

By entrenching itself in the systems and processes of the businesses it services, Infomedia bares some of the characteristics we like in a business, and in particular, higher switching costs. Once staff are trained in Infomedia's systems to directly order and track car parts, as well as upsell the customer, it becomes a more expensive exercise to switch to another provider.

The score

Well, that's the theory anyway. Recently however, Jaguar/Landrover ceased their relationship with Infomedia, and in response Infomedia's share price dived 18% from \$1.15 to 94 cents.

"Infomedia announces that, as a consequence of the non-renewal of one of its agreements with Jaguar and Land Rover Limited (Jaguar Land Rover), the Company's expected FY 2015 revenues and NPAT will reduce by approximately A\$1.1 million and A\$0.8 million, respectively."

Despite the meaningful operating leverage this business might enjoy from its program to roll out its Superservice product around the world, investors leapt to the conclusion that a single contract loss may foretell further losses.

In the first half of financial year 2014, the company



revealed solid revenue growth in every geographic region in which it operates. And in the first half of 2015, that revenue growth continued, even on a constant currency basis.

While reported NPAT was up 22% for the half, we look through the benefit of a large hedging loss in the previous corresponding period, to arrive at an NPAT figure for the first half that was down 3% on a constant currency basis.

But even-deeper digging revealed the slight decline in profit is more than explained by 1) a very large increase in operating expenses related to a significant investment in sales and marketing to support the global roll out, and 2) a lower rate of research and development capitalization (an accounting treatment that placed expenses on the balance sheet as an asset rather than through the profit and loss as an expense – which it now appears to be doing to a greater degree.

The risks

The loss of the Jaguar/Landover Microcat contract is an example of the kind of bumps that might be encountered and there will be an impact to FY15 profits of \$800,000.

Infomedia describes Microcat as “a mission critical application that helps genuine parts dealers quickly identify, locate and price specific parts that are needed to service or repair a vehicle, from the hundreds of thousands of parts OEMs (automakers) provide. Each part identification is particular to a specific vehicle and the way it was built.”

In July 2013, Infomedia announced that it had renewed its Microcat contract with Jaguar for three years. The loss announced in January this year was therefore something of a surprise.

But the Microcat service is not the Superservice offering – the new and exciting growth engine of the business, and the offering into which it is investing heavily. Our understanding, after speaking with management, is that one manager at Jaguar insisted on receiving the IP for Microcat. Understandably, Infomedia was not forthcoming. How such a stand off permitted the termination of a contract will be

something we ask at subsequent meetings.

The opportunities

A large number of trials are now underway with dealerships across the US and Europe and while a large Australian car service centre might have 10 hoists under which mechanics work – some of whom will have access to Superservice modules – a large US dealership could have 10 times that number.

Some of the trials are transitioning to revenue earlier than expected and management has revealed that there have been few or no rejections. Pilot dealers have reported a significant enhancement to productivity and revenue generation, and Infomedia is now training 200 representatives at Original Equipment Manufacturers to train their own staff.

Having set the business back on a steady course, co-founder Richard Graham sold a large number of shares a year or two ago, and stepped down from the chairman role after 27 years. That removes any concerns about ‘overhang’ and may eventually serve to add to liquidity.

Following the sell-down, there is scope for improved liquidity in Infomedia shares in the future, and given the quality of its business, Infomedia may start to receive more attention.

Infomedia



Source: Yahoo!7 Finance, 26 February 2015

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