



Invigor Group Ltd (IVO.ASX)

Back to the future

Event:

- Resignation of Mr Gary Munitz as Managing Director; Company update.

Investment Highlights:

- On the 5th November, IVO announced then Managing Director Gary Munitz, resigned. This was both unexpected and negative. Reasons were not publicly provided for the departure. Additionally, Paul Salter and Vic Lorusso resigned from the Board.
- Chairman Mr Gary Cohen has assumed the CEO role, while Mr Richard Granger – with experience in IT across the financial, health, and telecommunication sectors - has been appointed as COO. Anthony Sherlock and Roger Clifford were appointed Non-Executive Directors.
- The departure of Mr Munitz is a setback and heightens uncertainty surrounding achieving successful market penetration of IVO's products. This is a reasonable concern given Mr Munitz was highly involved in the development of Shopping Ninja and Insights Retail (Retail).
- We expect IVO will focus on building market penetration for its three Australian products as well as successfully completing its Condat acquisition. This will involve recruiting key staff and greater focus on sales and marketing.
- Retail is performing well, especially in terms of meeting our expectation in numbers of customers, albeit average pricing has been slightly lower. IVO had eight signed paying customers in October, plus 27 that were trialling it. Condat has achieved recent contract wins, underpinning our confidence in the business.
- Shopping Ninja uptake has been below our expectations, with only 11k downloads to date. We understand IVO will deploy more focus in consistent and marketing of Shopping Ninja, utilising both traditional and digital media. Insights Visitor (Visitor) traction has also been slower than we have expected.

Earnings and Valuation:

- We have downgraded our forecast earnings in FY15e and FY16e to \$0.3M NPAT and \$0.8M loss, mostly based on a slower adoption of Shopping Ninja.
- Our blended DCF:EV/sales multiple valuation of IVO has reduced to \$0.11/share from \$0.20/share, mostly due to a lower forecast uptake of Shopping Ninja and increase in risk surrounding its widespread adoption. We now assume long-term Shopping Ninja user penetration to be 1% of the Australian population (previously 5%).

Recommendation:

- We maintain our Buy recommendation with PT revised down to \$0.11/share (previously \$0.20/share). While obviously the departure of Mr Munitz is negative, we believe the market has more than adequately factored this in the share price. We believe value in IVO exists at the current shareprice, even after accounting for a more modest outlook for Shopping Ninja.
- The next 12 months will be critical for IVO as it seeks to propel the penetration of Shopping Ninja, Retail, and Visitor, as well as integrate Condat.
- Catalysts include evidence of marked increase in downloads for Shopping Ninja and further contract wins for Retail and Visitor.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.11/share
Previous	\$0.20
Share Price (A\$)	\$0.056
ASX Code	IVO
52 week low - high (A\$)	0.05-0.115
Capital structure	
Shares on Issue pro-forma (M)	345.4
Market Cap (A\$M)	19.3
Net Debt/(Cash) (A\$M)*	0.2
EV (A\$M)	19.5
Options on issue (M)	90.1
Fully diluted mkt cap (A\$M)	24.4
12mth Av Daily Volume ('000)	948

*Assumes completion of Condat acquisition.

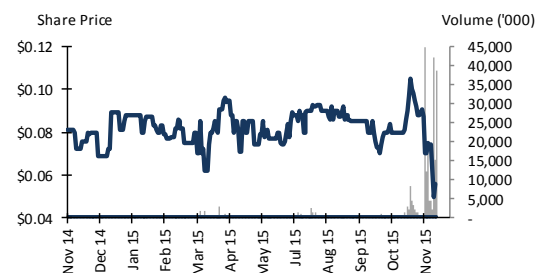
Y/e	Dec pro-forma*	2014a	2015e	2016e	2017e
Sales \$M		0.9	6.4	12.2	14.9
Adj. EBITDA \$M		-3.1	1.2	-0.1	1.4
Adj. NPAT \$M*		-4.1	0.3	-0.8	0.8
Adj. EPS c*		-2.1	0.1	-0.2	0.2
PER x		nm	55.3	nm	32.0
EV/EBITDA x		nm	13.3	nm	10.9

*Adj. = underlying FSB estimate. Assumes Condat acquisition.

Board	
Gary Cohen	Executive Chairman
Gregory Cohen	Executive Director
John Hayson	Non-Executive Director
Roger Clifford	Non-Executive Director
Anthony Sherlock	Non-Executive Director

Substantial Shareholders	
H Investments (John Hayson)	16.3%
RJL Investments (Gary & Greg Cohen)	14.1%

Share Price Graph



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Foster Stockbroking acted as Sole Lead Manager for the \$4.8M placement of 57.0M IVO shares at \$0.085/share in August 2015, and received fees for this service. Foster Stockbroking is engaged in providing corporate services to IVO for which it has earned fees and continues to do so. Services include, but are not limited to, capital markets advisory, institutional research, and marketing roadshows.



Invigor Group Ltd (IVO)*

Full Year Ended 31 December

Profit and Loss A\$M	2014a	2015e	2016e	2017e	Financial Metrics	2014a	2015e	2016e	2017e
Sales revenue	0.9	6.4	12.2	14.9	Sales growth %	nm	nm	91%	22%
Other revenue	0.0	0.0	0.0	0.0	EPS growth %	nm	nm	nm	nm
Operating Costs	4.0	5.2	12.3	13.5	EBITDA margin	nm	18%	-1%	10%
Underlying EBITDA	-3.1	1.2	-0.1	1.4	EBIT margin	nm	6%	-5%	6%
D&A	0.7	0.8	0.5	0.6	Gearing (ND/ND+E)	19%	-2%	4%	0%
Underlying EBIT	-3.6	0.4	-0.6	0.8	Interest Cover (EBIT/net int)	nm	nm	-3.8x	nm
Net Interest exp / (income)	0.4	0.6	0.2	0.1	Average ROE %	-176%	-4%	-5%	5%
Profit before tax	-4.0	-0.3	-0.8	0.8	Average ROA %	-51%	2%	-3%	4%
Tax exp / (benefit)	0.0	-0.6	0.0	0.0	Wtd ave shares (M)	137	262	345	345
Underlying NPAT	-4.1	0.3	-0.8	0.8	Wtd ave share diluted (M)	192	332	435	435
Non-recurring items	-0.2	0.8	0.0	0.0					
Reported NPAT	-4.0	-0.4	-0.8	0.8					
Underlying EPS diluted (c)	-2.1	0.1	-0.2	0.2					
Cashflow A\$M	2014a	2015e	2016e	2017e	Sales and earnings multiples	2014a	2015e	2016e	2017e
Underlying EBITDA	-3.1	1.2	-0.1	1.4	P/E x	nm	55.3	nm	32.0
Change in WC	4.2	-1.4	0.0	0.0	EV/EBITDA x	nm	13.3	nm	10.9
Tax paid	0.0	0.5	0.0	0.0	EV/EBIT x	nm	42.2	nm	18.9
Other	9.4	-1.8	0.0	0.0	EV/sales x	17.9	2.4	1.3	1.0
Net interest	0.5	-0.3	-0.2	-0.1	Dividend yield %	0	0	0	0
Operating Cashflow	11.0	-1.8	-0.3	1.4	IVO Valuation	A\$M	A\$/share		
Purchase of PP&E	-0.6	-0.5	-0.6	-0.7	DCF 10% WACC, 3% terminal growth:				
Other	-1.0	-3.6	0.0	0.0	Enterprise value	40.0		0.09	
Investing Cashflow	-1.6	-4.1	-0.6	-0.7	Net cash(debt)	0.2		0.00	
Debt proceeds (repayments)	0.0	2.9	-1.7	-0.7	Equity value	40.2		0.09	
Equity proceeds	0.5	4.8	0.0	0.0	EV/sales 5.7x forward 12 month sales				
Other	0.0	-0.3	0.0	0.0	Enterprise value	53.0		0.12	
Financing Cashflow	0.5	7.4	-1.7	-0.7	Net cash (debt)	0.2		0.00	
Net Cashflow	9.9	1.5	-2.6	-0.1	Equity value	53.3		0.12	
					Blended Valuation (50:50 DCF:EV/sales)	46.8		0.11	
Balance Sheet A\$M	2014a	2015e	2016e	2017e	Divisional analysis (A\$M)	2014a	2015e	2016e	2017e
Cash	1.1	2.6	0.0	0.0	Shopping Ninja	0.0	0.2	0.9	2.0
Receivables	2.7	4.9	9.3	11.4	Insights Retail	0.0	0.1	0.8	1.2
PPE	0.2	0.2	0.3	0.4	Insights Visitor	0.0	0.1	0.3	0.7
Intangibles	6.0	11.0	11.0	11.0	IT Consulting	0.9	5.0	3.3	3.4
Deferred tax	0.0	0.0	0.0	0.0	Condat	0.0	1.0	7.0	7.7
Other	0.5	0.9	0.9	1.0	Group Sales Revenue	0.9	6.4	12.2	14.9
Total Assets	10.5	19.6	21.5	23.9	Shopping Ninja	0.0	0.1	0.6	1.5
Accounts payable	2.8	1.4	3.2	3.5	Insights Retail	0.0	0.1	0.5	0.9
Debt	2.3	2.4	0.7	0.0	Insights Visitor	0.0	0.1	0.2	0.5
Provisions	0.4	0.5	1.1	1.2	IT Consulting	-0.3	3.7	0.5	0.5
Other	0.0	0.7	2.7	4.5	Condat	0.0	0.1	1.1	1.2
Total Liabilities	5.5	5.0	7.7	9.2	Corporate	-3.3	-3.8	-3.5	-3.7
Reserves and capital	128.6	138.7	138.7	138.7	Group EBIT	-3.6	0.4	-0.6	0.8
Retained earnings	-123.6	-124.0	-124.8	-124.0	Shares on issue	M			
Total Equity	5.0	14.6	13.9	14.6	Ordinary shares				345.4
					Options				90.1
					Fully Diluted				435.5
					Substantial shareholders	Interest			
					H Investments Pty Ltd (John Hayson)				16.3%
					RJL & Gregkar (Gary & Greg Cohen)				14.1%

Source: Company; Foster Stockbroking estimates

* All figures assume completion of Condat acquisition including issue of conditional shares.



RESIGNATION OF MR GARY MUNITZ AS MANGING DIRECTOR

Unexpected and negative

- On November 5, IVO announced its then Managing Director, Mr Gary Munitz, resigned. This was both unexpected and negative. Mr Munitz had a successful track record in business and products development in the retail e-commerce, most notably MenuLog and the Shopping Ninja and Insights Retail products.
- Reasons were not publicly provided for the departure. The role of CEO was assumed by the Chairman Mr Gary Cohen effective immediately.

Board and staff changes

- Additionally, both Mr Paul Salter and Mr Vic Lorusso resigned from the IVO Board. We surmise that part of the reasons for their departures surrounded the circumstances of Mr Muntiz's resignation. We also understand that the resignation of the Board members and MD also led to some key staff departures.
- We believe the resignations have had a disruptive impact on IVO, and the company would have lost some momentum in the business development of its products - Insights Retail (Retail), Insights Visitor (Visitor), and Shopping Ninja.

Appointment of Chief Operating Officer (COO)

- As part of IVO addressing the departures, the company has appointed Mr Richard Granger as COO. He has had extensive experience in IT across financial services, health, and telecommunications. His prior appointments include Partner at Deloitte (UK), Director General for Health IT for the National Health Service (NHS), and interim CTO for a Fortune 500 company. Mr Granger will have responsibility for IVO's operations on a day-to-day basis, including Condat.

Board appointments

- IVO has appointed both Mr Anthony Sherlock and Mr Roger Clifford to the Board as a Non-Executive Directors. Mr Sherlock is a Director of Stockland Capital Partners and Equatorial Mining. He also was formerly a Director of IBA Health, Austral Coal, and Chairman of Australian Wool Corporation. Mr Clifford is on the Board of Jewish House and owner of the Arc Fashion Group. Between themselves, we expect these Directors will bring in valuable experience from IT, marketing, and retail.

COMPANY TO KEEP FOCUS ON INCREASING MARKET PENETRATION

- The departure of Mr Munitz is a setback and heightens uncertainty surrounding achieving successful market penetration of its products. This is a reasonable concern given that Mr Munitz was highly involved in the development of the Retail and the Shopping Ninja products.
- As a counter, we expect the company's key focus now will be focuses on marketing. This imperative in building market penetration for its three Australian products, and especially so for Shopping Ninja which is a B2C product.



- We expect the company to recruit further key staff in addition to the recent appointment of COO, to ensure successful execution of marketing, as well as for product development. We expect the appointment of Chief Technology Officer (CTO) in the near term.

CONDAT ACQUISITION TO COMPLETE

- The collapse in the IVO share price has generated some uncertainty also on whether it can complete the Condat acquisition, given that a half of the \$4.5M consideration is payable in IVO scrip. We understand the vendor is committed to the sale at the IVO shareprice of A\$0.085 agreed to last month. The acquisition is subject to IVO shareholder vote, with a meeting to be held 1 December 2015.

OPERATIONS UPDATE – RETAIL FINE, NINJA & VISITOR SLOW, CONDAT CONTRACTS

Retail – Rapidly gaining traction in market

- We believe Retail has been IVO's best performing product, especially in terms of meeting our expectations. Since our last report, Retail has continued to build its customer base among retailers and brands. On 19th October, IVO showed that Retail had signed eight paying customers, generating annualised revenue of ca. \$200k, or on average ca. \$3k per month. While pricing has been below our expectation of \$5k/month, this has been offset by a higher number of signed customers. Recent signed customers included a major retailer and a major international brand.
- In addition to the eight customers, IVO had 27 customers that were trialling the product in October.
- We understand IVO is examining the potential to extract greater value from Retail by monetising proprietary data such as that collected by POS providers, and incorporating it in its analytics..

Shopping Ninja – Downloads behind expectations

- Shopping Ninja's recent performance has disappointed. In its most recent update (10 November) IVO announced that there had been 11k downloads. We believe the product is appealing but that marketing has been sporadic and not effective to date. This is obviously a key area of concern and focus for the company and we expect a more consistent marketing campaign going forward, utilising both digital and traditional media.
- Shopping Ninja now works across Apple devices but in the format of a directory – i.e. akin to a conventional online shopping comparison site - as opposed to plug-in browser. The product is free in the Apple app store.
- The company has announced that major retailers such as Dan Murphy's and Appliances Online have joined as affiliates, which will further add to commissions earned by IVO, especially when the retailers offer the cheapest online product in their respective category, and Shopping Ninja entices the consumer to purchase from the retailer's online site.

Visitor – Yet to gain traction

- As with Shopping Ninja, Visitor has performed slower than our expectations. Subsequent to the Sunshine Coast Council contract, a leading Sydney hospitality group has signed a contract for deployment of Visitor in its venues.



- While we believe that Visitor may well be a superior product offering to that of competitors, the latter have been more successful in an initial ‘land-grab’. However this first mover advantage is not as critical as it is in other domains. We believe that switching costs are relatively low for buyers, especially as IVO’s WiFi analytics can integrate comfortably with other telco/equipment providers.

Condat– Recent contract wins

- IVO has announced recent contract wins for Condat. These include a \$4.5M project with the EU Horizon programme to develop a solution for verification of user generated video from social media for uptake into media and TV productions. Condat is part of a consortium of eight partners. Value of the project net to Condat is \$0.5M. Condat also won a \$1.5M contract win over 14 months with a major German media company. These contract wins are positive and underpin confidence in the business.

CHANGES TO EARNINGS FORECASTS

- We have downgraded our forecast earnings for IVO, mostly based on a slower uptake of Shopping Ninja and Visitor. We forecast NPAT of \$0.3M and -\$0.8M for FY15 and FY16, down 50% and 160% from \$0.6M and \$1.4M.
- Our new sales forecasts are \$6.4M and \$12.2M for FY15e and FY16e, down 6% and 46% (previously \$6.8M and \$22.7M). Our key changes are:
 - Cumulative downloads of 14k and 39k at the end of FY15e and FY16e for Shopping Ninja (previously 56k and 420k);
 - Cumulative customers for Visitor of two and seven at the end of FY15e and FY16e (previously four and twelve);
 - Average subscription price for Retail of \$3k/month (previously \$5k/month).
- We have made no changes to our Condat forecasts, as our revenue and earnings growth assumptions already accounted for the recent contract wins.

**IVO VALUATION \$0.11/SHARE**

- Our valuation of IVO has decreased to \$0.11/share from \$0.20/share, using our blend of DCF and EV/sales. The main reason for our decrease is the lower than expected uptake of Shopping Ninja and increase in risk surrounding its widespread adoption. Our chief changes to assumptions are:
 - Long-term Shopping Ninja user penetration of the Australian population to be 1% (previously 5%).
 - Average monthly subscription revenue for Retail of \$3k (previously \$5k), but customer penetration unchanged at 10% of retailers and brands in the Australian market (across the verticals CE, alcohol, whitegoods, and health and beauty)
- We have left unchanged our long-term market penetration for Visitor at 2% of Australian WiFi hotspots. We have also left unchanged our forecasts for Condat and IVO's traditional consulting business.

Figure 1: IVO Valuation

Blended Valuation	A\$/share valuation
EV/Sales at 5.7x (sector average multiple)	\$0.12
DCF at 10% WACC	\$0.09
Equal weighting	\$0.11

Source; Company; Foster Stockbroking estimates.

BUY RECOMMENDATION MAINTAINED – PT NOW \$0.11/SHARE

- We maintain our Buy recommendation on IVO, with a new price target of \$0.11/share (previously \$0.20/share), in-line with our new valuation. While obviously the departure of Gary Munitz is negative, we believe the market has well factored this in with a savage reaction to the share price.
- We believe at the current shareprice some value in IVO exists, after accounting for a more modest uptake of Shopping Ninja and significant reduction in its earnings.
- The next twelve months will be critical for IVO as it seeks to propel the penetration of Shopping Ninja, Retail, and Visitor, as well as integrate the Condat acquisition.
- Catalysts will be evidence of increasing downloads of Shopping Ninja, and further contracts for Visitor and Retail.



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