Movers & Shakers - ASX Small & Micro Cap Industrials

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Small cap industrials were largely flat in the month of June in line with the broader small cap market. Micro caps performed a little better than small caps with the S&P/ASX Emerging Companies Accumulation Index up 2.6% for the month. After a significant decline in CY22, small and micro cap stocks have taken a breath in 1H'CY23, with the S&P/ASX Small Ordinaries Accumulation Index up 3.7% and the S&P/ASX Emerging Companies Accumulation Index flat.

The takeover offers continued in June as suitors sought to take advantage of depressed prices with some of the small and micro cap companies also making some acquisitions that are set to be positive for the bottom line. The below takes a look at six companies that witnessed significant share price moves and the news driving those moves.

Limeade Inc (ASX: LME)

Limeade is an employee well-being SaaS application that provides solutions for well-being at work. It also provides listening tools to improve employee engagement and offers an integrated app-based solution that allows for individual health-related tailoring programs for improved health outcomes. These tailoring solutions include diet-based solutions, exercise solutions and other healthcare solutions such as dental appointments. Limeade shares increased 229% in June following the announcement that the company had signed a definitive merger agreement in which WebMD Health Services will acquire Limeade for $0.425 per share/CDI. The offer represented a 325% premium to the last traded price of Limeade prior to the announcement.

The offer values Limeade at $111.5 million on a fully diluted basis. The agreement was unanimously approved by the Board, however the transaction remains subject to a number of conditions, including approval by shareholders, with a shareholder meeting to be scheduled in mid/late August. While the offer represented a significant premium to the trading price of Limeade, the company was trading at near all-time lows prior to the announcement and is well below the $1.85 listing price in December 2019.

Advanced Healthcare Intelligence Ltd (ASX: AHI)

AHI's share price spiked 370% to $0.40 in June, but retreated soon after, ending up 144.2% for the month. The share price movement was driven by the announcement that the company had agreed to issue Orca Capital GMBH 20 million shares at a price of $0.25 per share, raising $5 million. The issue price represented a substantial increase to the trading price prior to the announcement. The net proceeds will be used for current products, and business development marketing, but could also be used for general corporate purposes.

The company also announced it had signed a letter of intent (LOI) with Dubai-based Pharmak Direct. Pharmak Direct is a prominent player in the e-script market throughout the Middle East, providing digital home-delivery prescription solutions for Health Insurance policies. Under the terms of the LOI, Pharmak Direct will integrate the AHI Biometric Health Assessment (BHA), enhancing the e-script patient experience and facilitating cost-effective medication and health management solutions within the Pharmak Direct e-script dispensing & packaging system (ESPS). The parties are targeting January 2024 for the initial launch of the combined solution. Until such time AHI will not receive any revenue from the collaboration. Pharmak Direct expects to achieve a minimum e-script order volume of 100,000 e-scripts per month in 2024 in the UAE and a further 100,000 e-scripts per month in Saudi Arabia. Upon completion of the integration process, AHI will receive 1.6% of the gross e-script value. According to the company, the average e-script value in the UAE is US$150 in the UAE and US$93 per script in Saudi Arabia. At 1.6% of the e-script value, this represents total revenue of US$388,800 per month (US$4.67 million per year) for AHI from this agreement if the targets are achieved.

Intelligent Monitoring Group Limited (ASX: IMB)

IMB's share price increased 69.6% in June with the company announcing it had entered into an agreement to acquire Tyco Australia Group Pty Limited, a leading security monitoring provider, providing security system installation, maintenance and monitoring services to residential, commercial and medical customers across Australia and New Zealand. IMB will pay AUD$45 million cash for 100% of the shares in Tyco, subject to customary adjustments.

The acquisition will be funded via a combination of a new $80 million 3-year debt facility and the proceeds of an entitlement offer to raise $15 million, which is fully underwritten.

The acquisition will result in the number of lines monitored by IMB, doubling from 70,000 to 180,000 across both retail and wholesale customers with recurring revenue of more than $6.5 million. Management expects the combined business to deliver an EBITDA of approximately $24.8 million in FY23 (excluding transaction and restructuring costs), up from $5.4 million, with the company forecasting an increase in EBITDA to $31 million in FY24. Net debt to EBITDA is expected to reduce from 5.4x to 2.2x and pro-forma interest coverage is expected to increase from 1.8x to 3.0x.

Post the acquisition, the company will be in a position to pay down its debt and will be seeking to refinance to a senior secured bank facility within 18-24 months. All in all the acquisition appears to be a positive for the company.

Ixup Limited (ASX: IXU)

IXU shares increased 35.9% in June as the company completed the purchase of intellectual property and associated government contracts of Big Village Australia (BVA). The BVA assets are expected to contribute ~$5 million to IXU's group revenue in addition to being cashflow accretive.

IXU is now Australia's leading provider of responsible gaming and wagering protection technology solutions. IXU provides the next generation of data security using a methodology called homomorphic encryption, enabling both analytics and data security at the same time. This allows for a number of features including co-marketing, which allows for consumer data to be protected, while at the same time providing important insights for various use cases.

The company also completed a $3 million convertible note offering. The convertible notes will have a term of 24 months with an interest rate of 15%p.a. (paid quarterly) and a conversion price of 6 cents. If the noteholder converts in the first 12 months, noteholders will receive an option on a 1:2 basis with a strike price of $0.10, expiring 3 February 2025. The funds will be used for working capital for the BVA acquisition as well as other business operations.

Given the company generated revenue of A$72,000 in the March quarter, bringing revenue for the first three quarters in FY23 to $600,000, the acquisition of the BVA assets is significant. Considering the current run rate, the addition of the BVA assets would translate into FY24 revenue ~$5.8 million. The company currently remains cash flow negative with operating cash outflow of $7.8 million during the first three quarters of FY23.

Sprintex Limited (ASX: SIX)

Shares of Sprintex rose by 48% during the month as news came out it will be introducing a new S15 compressor at the World Hydrogen Technology conference. The compressor is expected to save up to 30% more energy than traditional compressors. The company is primarily involved in improving supercharge capabilities for cars and is now increasingly looking to hydrogen technologies, which will play a key role, in the transition away from traditional fossil fuel models.

The company recently signed a deal for high-speed electrical fuel cell compressors, worth $1.5 million. This is likely to lead to further contracts down the line as the technology is adopted and put to use in a real-world setting, providing momentum in terms of viability.

Hydrogen technology is being increasingly invested in and is seen as a significant alternative to electric vehicles. According to management's outlook the global fuel cell market is expected to grow from $3.36 billion to $28 billion with fuel cell compressors comprising 20% of that market.

The Hydrogen Powered Shipping Project (sHYpS), a European government funded hydrogen fuel cell marine development program which aims to support the decarbonisation of the shipping industry, will play a key role in helping bring in new sales for the company with competition relatively tepid, and the technology for marine decarbonisation quite nascent. Sprintex completed manufacture, testing, and commenced delivery of the initial A$270,000 e-compressor order for the sHYpS hydrogen powered cruise liner decarbonisation program. The program is expected to bring approximately $1.5 million revenue to Sprintex following the development phase through a six ship trial.

"At the 2022 World Hydrogen Expo, we picked up 3 major OEM projects and numerous smaller programs. We expect the upcoming 2023 World Conferences for both our Hydrogen Fuel Cell products and innovative water aeration units to bring similar levels of demand" – Managing Director Jay Upton.

Webcentral Ltd (ASX: WCG)

Shares of Webcentral company rose by 62.5%, primarily due to a substantial holding increase by Tectonic Opportunities Fund. Tectonic Opportunities Fund is a growth focused, absolute-return hedge fund, with a focus on small caps.

The fund bought 16 million shares, and currently holds 5% of total shares on issue. In response to the ASX price query, Webcentral responded that it was not aware of any substantial news that would lead to an increase in price, during the period.

Webcentral is primarily involved in providing domain registrar services, alongside, building, hosting, and providing website security.

The increase in shareholding does come as a surprise, considering that revenue growth was modest for the 1H'FY23, with revenue growing 5% to $48.5 million on the pcp. The company does have a strong sales pipeline but it remains to be seen if revenue will grow by the levels necessary to become profitable. With that said the company is making strides towards this goal. For example, the ARPU (average revenue per user) increased 9% in the 1H'FY23 resulting from the upsell to higher value products.

The domain registrar market is expected to grow relatively slowly and the company has strong competition from alternatives such as Verisign, who have a much larger share of the market.

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