INDEPENDENT INVESTMENT RESEARCH

Movers & Shakers - ASX Small & Micro Cap Industrials

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Reporting season wrapped up in August with significant volatility in small and micro cap industrial stocks as results were released. The below takes a look at 6 companies that experienced strong share price movements during the month of August, with many share price movements in response to the results release.

4DS Memory Limited (ASX: 4DS)

4DS memory was the best performer in the ASX Small and Micro Cap Industrials universe in August with the share price increasing 368.8% for the month. The share price reacted positively to the news that the results from the analysis of the Fourth Platform Lot were better than expected.

The company has undertaken significant development and optimisation work including modification of the PCMO etch process and the composition of the memory cells. This has resulted in the validation that the technology optimisation is transferable from tab to tab.

The analysis has shown a fully functional megabit array with 60mm memory cells, access transitions and write circuitry. Within the fully functioning megabit array the testing confirmed:

- Read and write speeds at 27 nanoseconds;
- Endurance well in excess of 2 billion cycles; and
- Retention is persistent and tenable.

The results from the analysis are significant with the read/write speed and endurance parameters critical to the company's goals. Interim Executive Chairman, David McAuliffe, stated "These megabit array results are a turning point for the Company and will now shape the Board's strategic planning over the coming months."

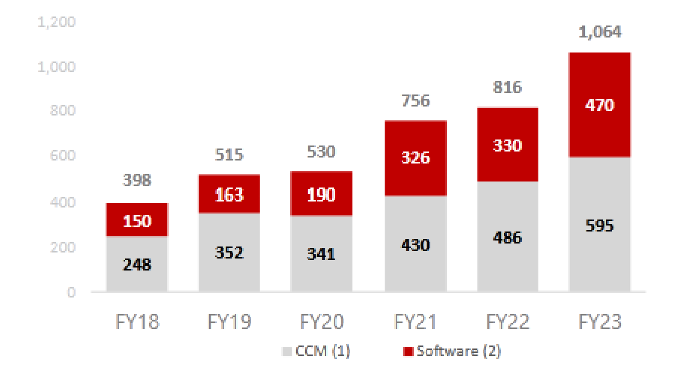
Further analysis of the megabit array will continue with a meeting being schedule with imec (a research and innovation hub in nanoelectronics and digital technologies) in early October to discuss strategic plans.

Audinate Group Limited (ASX: AD8)

Audinate is the leading provider of professional AV networking technologies globally. Shares increased 48.3% during the month of August with the stock rising on the release of the FY23 results.

In FY23, revenue from ordinary activities was up 50.6% to $69 million with 40% of the revenue coming from the U.S. Meanwhile, EBITDA increased 156% to $11 million. Gross profit accelerated to $33.4 million, however the gross profit margin declined slightly to 72.1%, from 74.7% in the prior year, as a result of increasing costs. Total units shipped increased 30%, with software units increasing 42% and CCM units up 22%.

Dante Units Shipped ('000)



Source: FY23 Investor Presentation.

Audinate's Dante platform distributes digital audio and video signals over computer networks and is designed to bring the benefits of IT networking to the professional AV industry. AV-over-IP (AVoIP) using Dante-enabled products ensures interoperability between AV devices and allows end users to enjoy high-quality, flexible solutions, typically with a lower total cost of ownership.

Audinate has 13 locations globally including, Australia, U.S, U.K and China. The company currently has 3,385 Dante-enabled locations. The application for the product remains relatively wide with universities, conference rooms, broadcast studios, corporate campuses, arenas, and conference centre's, just some of the examples where the technology can be used.

The system software can integrate into a range of different audio-visual integrators including Analogue, Bluetooth, and software such as PC/Mac/Cloud. According to management, the current addressable market is around USD$1 billion. The industry is expected to grow by 41% by 2028 to US$402 billion.

Since the month-end, Audinate has completed a $50 million Institutional Placement at a price of $13.00 per share, a 9% discount to the share price prior to the announcement. The company is also undertaking a Share Purchase Plan (SPP) to raise a further $20 million at the same price as the Institutional Placement. Capital raised will be used to continue strategic investment to drive growth, both organic and acquisition.

Bravura Solutions Limited (ASX: BVS)

Bravura Solutions is a provider of software solutions related to wealth management, superannuation, life insurance, private wealth and portfolio services. Shares spiked after the company reported its FY23 results, with shares ending up 54% for the month as investors were buoyed by the cost-cutting program.

Revenue declined 6.4% year-on-year to $249.6 million, with fewer wealth management projects and an ending of a fund administration contract. Lower revenue combined with increased operating costs resulted in the company reporting an EBITDA of -$0.3 million and a Net Loss of $280.7 million. Adjusting for the non-recurring expenses the company reported a Net Loss of $23.1 million, down from the Adjusted Net Profit of $25.7 million reported in FY22. The company had $76 million in cash at June-end and was debt-free.

Bravura Solutions is currently undergoing substantial change in an attempt to turn the company's fortunes around. In 2H'FY23 a new CEO and Chair was appointed and the board was refreshed. The new management is embarking on a cost cutting program with the company seeking to reduce annual costs by $40 million and the company seeking to return to run rate profitability by the end of FY24.

Cost Cutting Program

	Organisational Re-alignment	External Cost Reductions	Optimising Operating Model	Right-sizing
BENEFIT	$25m	$4m	$5m	$6m
SCOPE	Reduced management layers; Removed duplication	Closing and resizing offices in Australia, UK and NZ; Renegotiating hosting and IT partnerships	Integrating our acquisitions; Optimising our geographic locations onshore / offshore mix	Capacity reductions as projects wind down
STATUS	Completed	FY24	FY24	FY24

Expected annualized savings $40m

Source: FY23 Results Presentation.

The company raised $80 million in March 2023 and will provide details regarding the 3 year strategic plan in October as well as FY24 guidance. This will be a catalyst event for the company.

Step One Clothing Limited (ASX: STP)

Step One, a leading online clothing and undergarment company, shares increased after the FY23 results were released on 24 August 2023. Shares ended up 68.6% for the month.

The company, which sells its products globally, posted a year-on-year (YoY) decline in revenue, with revenue coming in at $65.2 million compared to $72 million in the prior year. The company experienced tough trading conditions with revenue down in all markets (Australia, UK and US) with weak consumer sentiment weighing on sales. While revenue declined, proforma EBITDA increased to $12 million compared to $9.0 million in the prior year and proforma NPAT increased 61.7% to $8.6 million. The results reflected the priortisation of profitability over top-line growth. On the back of the result, the company declared an inaugural dividend of 5 cents per share.

The company reported strong gross margins of 80.7%, although this was down from 82% in FY22. The aerage value of orders increased by 19%, and the company added 257,000 new customers, bringing the total number of customers to 1.358 million. The company has a strong balance sheet with cash on hand of $38 million and no debt.

Step One Founder and CEO, Greg Taylor said: "I'm pleased with the strong profit result achieved by StepOne in FY23, reflecting our pivot from prioritising top-line growth to profitability in response to challenging trading conditions in our key markets." "We continue to build our position as a leading brand for sustainable and high-quality innerwear products for both men and women. During the second half, we explored product adjacency opportunities within the women's segment, successfully launching a new Bikini Brief line that has resonated well with our customers." "We are mindful of our elevated inventory position, and while this has helped us in managing global shipping delays to date, we will maintain a prudent approach to inventory management. This involves focusing on reducing the levels of existing inventory SKUs while ensuring we maintain the flexibility to support new product launches."

The company will seek to pursue profitable growth in Australia and the UK while continuing to balance growth and profitability in the US. The company's focus in FY24 will be on improving the customer funnel, expanding partnerships, expanding the product range, investing in production capability, expanding sales channels and marketplaces and improving the customer experience.

Veem Ltd (ASX: VEE)

Veem is a designer and manufacturer of disruptive, high-technology marine propulsion systems and stabilisation systems for the global luxury motor yacht market, fast ferry, commercial workboat and defence industries. Shares were up 43.5% for the month with shares responding positively to the FY23 results.

Revenue was up 10% to $59.6 million in FY23. EBITDA and NPAT increased to $10 million and $4.1 million, respectively, and cash flow from operations came in at $6.1 million, an increase of 143% on the prior year.

Gyro sales came in at $5 million, which was down on the $5.5 million in the prior year with the delay of the delivery of one gyro worth $0.7 million resulting in the decline. The company has orders of $11 million which includes the agreement with Strategic Marine for fast crew boats servicing offshore energy in SE Asia. Under the agreement, Strategic Marine have committed to purchase a minimum of 12 gyros over the next three years. The company commented that "FY23 saw a growing level of interest in the large gyrostabilisers across all markets as well as more informed inquiries from the commercial workboat sector who are realising the operational and financial benefits of having a gyrostabiliser on board." Veem continued to invest in the development of its gyro product in FY23 and remains the only major supplier in the large marine gyrostabiliser market.

The propeller and defence businesses drove the profitability increase with total propulsion sales up 17% to $24.2 million and total defence revenue up 19% to $17 million. The bulk of the revenue for the defence business was from the submarine program with revenue of $12.3 million, up 72% on the prior year, due to the delivery of the majority of components for the full cycle docking program in FY23. The company is currently working on the Hunter Class Frigate Program (HCFP) which is a demonstrator program for BAE Systems Australia. The value of the contract is $1.7 million. Successful completion of the program ensures Veem qualifies as a supplier to the HCFP.

Managing Director Mark Miocevich - "We have started FY24 in a very strong fashion and our FY23 investments, particularly in propellers, are contributing strongly to revenue and profit."

EML Payments Limited (ASX: EML)

EML Payments is a secure payments system, which provides a range of products including, card payments, open banking, and digital solutions. Shares of the company spiked after the FY23 results were released on 29 August 2023. Share ended up 49.7% for the month, with the company finishing the month near its 12-month high.

The company reported that gross debit volume (GDV) increased 62% YoY to $129 billion, meanwhile revenue was $254 million, up 9% YoY. Underlying EBITDA (adjusted for one-off costs) came in at $37 million, down 28% on the prior year, predominantly due to increased overheads. The company reported a Net Loss of $284.8 million, which included an impairment expense of $262.9 million. Overall, the results were better than the company had guided, which led to the shares spiking after the results were announced.

The company has faced significant challenges in recent years from the European PFS business with the company's share price hitting an all time low during the FY23 period. During the 2H'FY23, the company announced it had appointed Barrenjoey to conduct a strategic review of the business, with the review considering all options available to the Board, including a sale of all or parts of the business to maximise shareholder value. In it's FY23 results, the company commented that the strategic review is ongoing, however has made progress. An initial outcome of the review has resulted in the Board's decision to separate the profitable UK domiciled business PFSL from the unprofitable Irish domiciled business in order to improve performance. The company will provide a further update on the strategic review no later than the AGM scheduled for November.

The company will continue to focus on its four stated operational priorities in FY24 being: (1) Remediation - complete PFSL, UK separation and commence growth post remediation; (2) Cost optimisation - organise all subsidiaries to be break even or better. Focused on a leaner operating model with the company seeking to remove $10 million in costs in FY24; (3) Growth in core business - complete rebuild of commercial teams and deliver technology improvements to expand offering; and (4) Talent - complete leadership team rebuild and simplify organisational design and operating structure.

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