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Bulls & Bears

AFR Damstra reaches fever pitch during COVID-19

By Yolanda Redrup

Analysts and investors are confident workplace management technology company Damstra will hold onto the new business it's winning during COVID-19, saying once a client signs up, they never leave.

Damstra's mobile attendance hardware and software allows employees to log in and out from worksites anywhere, at any time, and allows companies to monitor and report on flexible working, as well as track time and attendance.

The company, which listed on the ASX in October, is on track to exceed its earnings before interest, tax, depreciation and amortisation prospectus forecasts (according to its most recent market update), while revenue growth is expected to be in the range of 30 to 40 per cent.

Speaking to The Australian Financial Review, Shaw and Partners equities analyst Jonathon Higgins said the business was pushing into the US and the UK, but 80 per cent of its revenue was generating in Australia and of its Australian clients, it had no churn.

''Once you get one of the products I don't think you go back,'' he said. ''You have employee tracking and it lets you manage the worksite in a more efficient way ... Damstra also have the terminals that they place on site, which makes it highly sticky and it's likely to be the same offshore.

''In the US and the UK they are displacing products that are clunky or offline pens and paper. The good thing about COVID for Damstra is it's a change event. People want to know who is coming onto worksites and if they have the right accreditations.''

Locally, Damstra has already won a suite of major mining, construction and utilities clients. Businesses such as John Holland, NBN Co, AGL Energy and Glencore all use its technology on their sites.

But its new fever detection product, Moelis Australia vice-president Brendon Kelly said, appealed to a wider group of customers.

''They have recently signed up a private school in Colorado as an example,'' he said. ''While it is still early days, we expect there will be strong demand for this product over the next 12 months, especially in the northern hemisphere where countries were more affected by coronavirus.''

When the company listed in October, it had an issue price of 90¢ and despite falling as low as 40¢ in the March sell-off, it is now trading at $1.69, after reaching a record high of $1.94 in mid July.

In the year to June 30, 2019, the business recorded $15.3 million in revenue and a net loss of $3.7 million.

In its prospectus Damstra forecast revenue growth to be 39 per cent for 2020, bringing revenue to $21.3 million, while pro forma EBITDA after significant items was tipped to hit $4.3 million (or a loss of $700,000 on a statutory basis).

Since listing, the business has made three acquisitions, with its largest and most recent announced last month. Its acquisitions tend to be for a company’s technology, which it can bolt onto its own platform and cross-sell to customers, or for customers.

In an all-scrip deal, Damstra announced its intention to acquire Vault Intelligence in July, for $58.8 million. The acquisition of Vault, which has two key products (Solo, a workforce monitoring software and Enterprise, a comprehensive solution for environment, health and safety risk management), Damstra said, would enable it to accelerate product innovation around things such as fever detection, facial recognition, and remote, mobile and lone workforce solutions. It is also expected to add $8 million of revenue to Damstra in 2021 and have cost synergies.

Regal Funds Management emerging companies strategy portfolio manager Ben McCallum, who bought into Damstra in a pre-IPO capital raise, said he was in favour of the acquisition.

Mr McCallum said the fund was also an investor in Vault and it was a great deal for both businesses.

"Damstra's addressable market is large and highly fragmented... and these guys have a proven history of completing acquisitions, bolting them in and then extracting synergies," he said. "Vault is like [previous acquisition] Velpic in that it has a product that Damstra customers are eager for.

Damstra was sold off by major labour hire firm Programmed in 2016, when it merged with Skilled Group, as it was considered a non-core asset.

Since then it has hit its straps, with chief executive Christian Damstra previously expressing his ambitions to become a global tech success story with an Australian base. Although the company has some way to go to be the size of WiseTech, its deal with gold mining giant Newmont Corporation was considered a leap in the right direction.

However, with the bulk of its revenue still being generated in Australia, to have a chance at emulating the success of WiseTech, Mr Higgins said he would like to see the business grow revenue to $50 million within the next two years and increase its percentage of offshore revenue to 50 per cent within two to three years.

‘‘It’s early days in North America ... but it’s a massive market that’s multiples and multiples of Australia.’’

To establish a larger offshore footprint, Mr Damstra has moved to the US and is building a sales team there.