



SMALL-CAPS

RECOMMENDATION

RPMGLOBAL

RUL:ASX
November 2024

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SMALL-CAPS RECOMMENDATION

RPM Global Holdings Ltd RUL:ASX

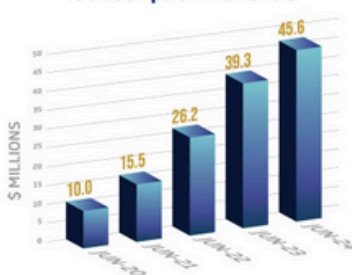
RPM Global is a software and consulting provider focused on solutions for the mining industry. The company earns most of its revenue through software maintenance, licensing, and subscriptions, while the remainder comes from project-based consulting work for mining operations.

Notably, the company's software offerings, including AMT and XECUTE, have gained traction as the company expands its portfolio through development and acquisitions.

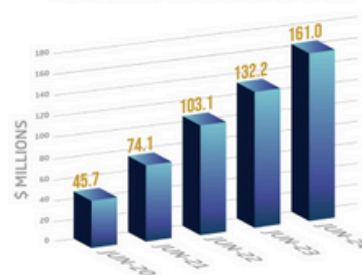
The crucial thing to understand about RPM Global is that part of its business, about 65% of its revenue in H2 FY 2024, is generated by a high-quality software business that is transitioning from license sales to software as a service subscription. The other part of its business is a medium (or potentially low) quality consulting business that one might expect to trade at around 10 to 15 times earnings if it were a standalone business. However, this low-quality business is part of the sales motion that feeds the high-quality software business, so it makes sense to retain it.

AUD\$m	2024	2023	\$ Var	% Var
Subscriptions	45.6	39.3	6.3	16%
Perpetual Licences	1.3	2.9	(1.6)	(55)%
Maintenance	12.4	13.7	(1.3)	(9)%
Consulting	12.8	10.2	2.6	25%
Sale of right to royalty	3.1	-	3.1	100%
Software Revenue	75.2	66.1	9.1	14%
Direct Expenses	(2.7)	(2.0)	(0.7)	(35)%
Net Revenue	72.5	64.1	8.4	13%
Operating Expenses	(34.0)	(29.9)	(4.1)	(14)%
Contribution	38.5	34.2	4.3	13%

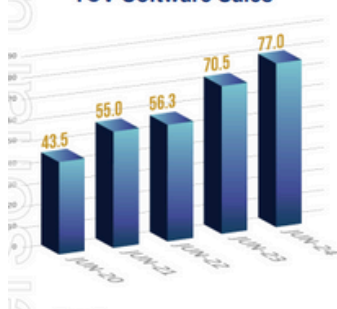
Recognised Subscription Revenue



Yet to be Recognised Contracted Software Revenue



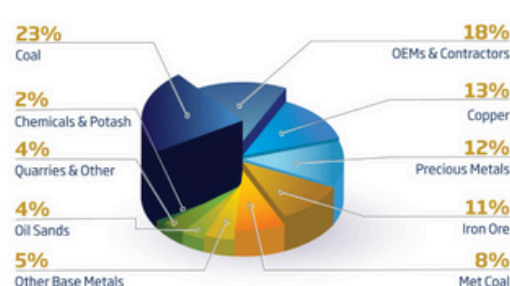
TCV Software Sales



ARR by Suite



ARR by Commodity



INVESTMENT CONSIDERATIONS

Leadership

Managing Director Richard Mathews joined RPM Global in 2012, steering the company toward its current software-centric focus. Known for building his significant personal investment in RPM shares on market in the very early days, Mathews embodies a founder-like role.

The company previously gave guidance as “EBITDA less management incentives”, which is arguably one of the worst measures of a company’s performance you could imagine. However, the board showed a willingness to improve and no longer proffers such a dubious metric, despite Mathews’ recent protestations at the 2024 AGM that it is a valid measure.

Chairman Steve Baldwin owns over 3 million shares, and Director Ross Walker owns over 1 million shares. Directors Angeleen Jenkins and Paul Scurrah don’t own many shares, but Scurrah recently bought almost \$25k worth of shares on-market at \$2.90.

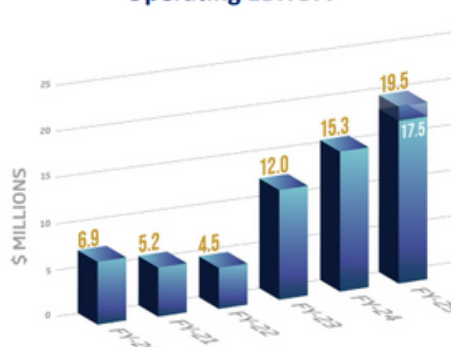
Financial Performance

FY24 Revenue Waterfall Chart

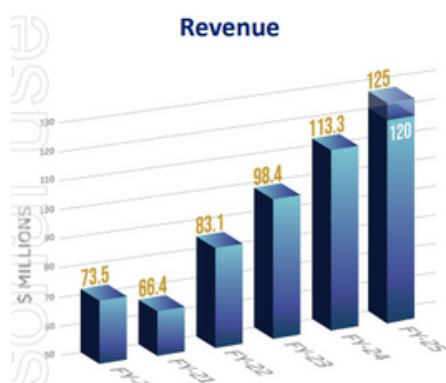
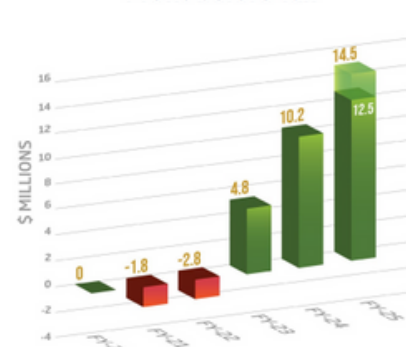


FY25 GUIDANCE

Operating EBITDA



Profit before Tax



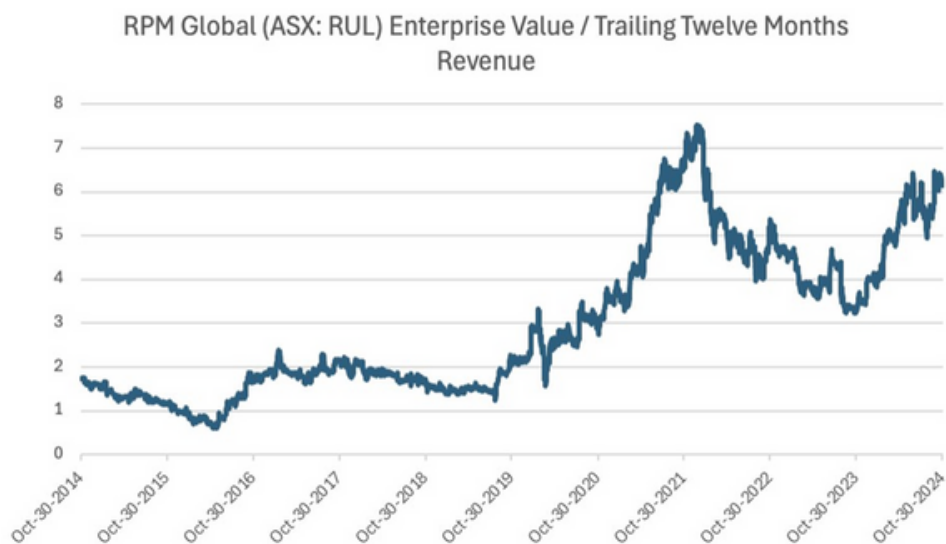
INVESTMENT CONSIDERATIONS

Valuation

RPM Global has significant tax losses, so earnings before interest and tax is a better guide to underlying earnings growth than net profit after tax.

It has given guidance that FY 2025 profit Before Tax will be in the range of \$12.5 million to \$14.5 million compared to \$10.2 million in FY 2024. That means, depending on the tax rate, RPM Global probably trades in the vicinity of 50 to 55 times FY 2025 earnings.

RPM Global's enterprise ratio to revenue multiple can give us a sense of how optimistic the market is about the company relative to history. The chart below suggests that the market has become more optimistic about RPM Global lately, but optimism remains below peak levels.



Sociological Factors

RPM Global was included in the ASX 300 on 23 September 2024, and the share price has been strong since then. This suggests inclusion may have triggered incremental buying.

If the inclusion in the ASX 300 has driven buying, then the share price may moderate once that wave has passed. Given the fairly modest liquidity in the stock, it is unlikely to enter the ASX 200 in the short term but certainly has the potential to do so in the long term. That should drive further buying.

The less reliable advisory division has been performing strongly over the last couple of years. Since commentary tends to focus on the more attractive software division, it is quite possible that the market is overpaying for this lower margin, lower quality revenue by conflating it with the higher quality, higher margin revenue.

Finally, one of the difficulties for RPM Global is that many mine sites do not have good internet connections, so cloud software is not really viable. However, Starlink has revolutionised remote access to the internet, and this may drive a tailwind for the company since it prefers to sell subscription revenue to license revenue when possible.

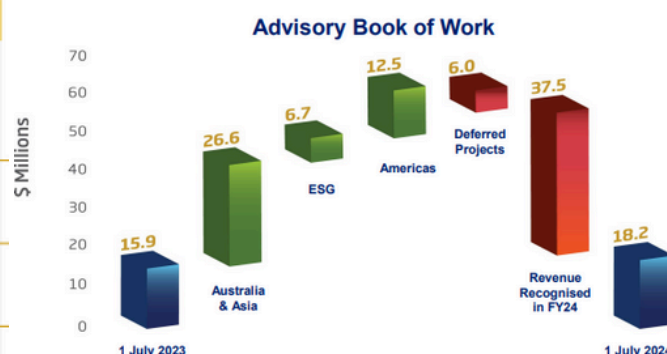
RISKS

Risks

Should growth stall, the RPM Global share price would likely de-rate given the current multiple of earnings implies an expectation of strong growth. The most likely reason organic growth would stall would be increased competition.

The CEO is clearly talented and has been the architect of the long-term strategy. His departure would likely hurt the stock.

AUD\$m	2024	2023	\$ Var	% Var
Australia/Asia	23.6	19.9	3.7	19%
Americas	9.5	7.3	2.2	30%
ESG	4.4	4.1	0.3	7%
Revenue	37.5	31.3	6.2	20%
Direct Third-Party costs	(6.4)	(4.9)	(1.5)	(31)%
Net Revenue	31.1	26.4	4.7	18%
Operating Expenses	(23.3)	(20.5)	(2.8)	(14)%
Contribution	7.8	5.9	1.9	32%



Since the advisory business isn't making recurring revenue, it is quite possible that it could decline sharply due to macroeconomics. Not only would this mask revenue growth in the software business, but it could also significantly reduce profits.

Finally, although past acquisitions have been successful, the company could be seduced into making a harmful acquisition.

WHY HOLD THE COMPANY?

Why hold the Company?

RPM Global could build its software business into something immensely valuable. Once clients move to the software, it will probably be very inconvenient to change providers, and this should mean pricing power for RPM Global in the long term.

While the multiple of current earnings is high, the company has demonstrated that profits can grow faster than revenue, and the company has plenty of room to grow. The company is reporting an increasing number of global framework agreements with big mining companies, which may prove to be a competitive advantage over many potential competitors.

RPM Global shares are an investment in the long-term growth of a potentially high-quality software and services business with plenty of room to grow both through product development and acquisitions. It is run by competent and aligned management. However, due to its current valuation and the less reliable advisory business, its shares are a higher-risk investment.

Conclusion

In conclusion, RPM Global presents a compelling investment opportunity due to its strong positioning in the mining software industry, successful transition to a software-as-a-service model, and potential for long-term growth.

The company's high-quality software business, which generates a significant portion of its revenue, coupled with its strategic consulting arm, creates a synergistic ecosystem that enhances its competitive advantage.

With aligned and competent management, a track record of successful acquisitions, and the potential for increased demand driven by technological advancements like Starlink, RPM Global is well-positioned to capitalize on the evolving needs of the mining industry.

While the current valuation may seem high, the company's demonstrated ability to grow profits faster than revenue and its increasing number of global framework agreements with major mining companies suggest significant potential for future value creation, making it an attractive option for investors willing to accept some risk in pursuit of long-term growth.

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Our Commitment

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