

# RIWI Corp.

**Update report | Q3 flop, FY2020 top. The company is still on track**

09 March 2021

Dear Reader,

A lot has happened since I published my initial Research Report on 01 October 2020.

I would like to use the Annual Report for FY2020, published on 03 March 2021, as an opportunity to bring you up to date.

What has happened since then? Quite a lot!

On 10 November 2020, RIWI reported results for Q3/2020. For the first nine months of FY2020, RIWI grew revenue to US\$3,262,900, an increase of nearly 30 % over the same period compared to the prior year which is actually very good against the backdrop of many companies around the world no longer generating revenues due to COVID-19. However, the revenues in the third quarter (US\$ 940,019) did not reach my expectations and probably also the expectations of other market participants. Not only were Q3/2020 revenues 6.1 % lower than Q2/2020 revenues, but they were also 6.6 % lower than Q3/2019 revenues. Keeping in mind that RIWI began promoting the U.S. Election product in Q3/2020 and that RIWI has invested heavily in the sales team throughout the year, the revenue performance was a real disappointment. The new sales staff obviously has not yet been able to generate significant sales. On the other side, the new staff has of course incurred personnel costs, so the EBIT margin declined to 7.6 % in Q3/2020.

This did not leave the share price unscathed. In the weeks following the release of the Q3/2020 numbers, the share price fell from a high of C\$4 to C\$2.5 just before Christmas and has since hovered between C\$2.5 and C\$3.

Besides, I would like to mention that RIWI did not predict the outcome of the U.S. presidential election quite correctly this time. RIWI did predict, contrary to other polling methods, that the race between Trump and Biden was tight, but on the morning of 02 November 2020 (the day before the election), RIWI data showed Trump to be re-elected at that time.

**riwi** U.S Election Weekly Insights & Predictions Brief - November 2 2020, 10 A.M. EST

**RIWI forecasters expect President Trump to be re-elected with at least 259 Electoral votes and a 93% probability of gaining at least the additional 11 votes required for a White House victory; Republican Senators expected to win 3 of 8 key Senate races, Democrats to take 3, and 2 are tied**

**Electoral College: As of 8 a.m. EST on November 2**, President Trump is leading. RIWI data shows President Trump has 259 electoral votes vs. former Vice President Biden's 208 (Map 1). The candidates are statistically tied on 71 electoral votes.

The results shown are limited to those responders who say they are / were likely to vote, or to those who say that it is / was worth their time to vote (the precise respondent subsets are identified in relevant parts of this brief). These results reflect the views of randomly engaged RIWI forecasters from the full September 8 - November 2 period.

**Map 1: Regardless of whom you support, who do you think will win your state in the 2020 Presidential Election?**  
Electoral College votes, profiling 'Likely voter' data only, 95% Confidence Interval

1

That was like a slap in the face. Boom!



2

<sup>1</sup> You can find all RIWI U.S. Election Weekly Insights & Predictions Brief Reports here: [RIWI Predicted the Tight Race Seen in Today's Results - RIWI](#)

<sup>2</sup> [RIWI Corp. \(RIWI\) | Stock Price | TMX Money](#)

In the stock market, it is important to remain calm. I did see the investment case as being knocked on the head. I wanted to wait and learn because I see RIWI as a long-term investment, and it was clear from the beginning that RIWI would not have linear growth because of its business model. Not every quarter is automatically better than the previous quarter because the previous quarter may be inflated by a large contract recurred as revenue.

On 17 November 2020 RIWI announced that a major U.S. bank has awarded an initial contract order to RIWI for a significant amount under its new three-year long-term agreement.<sup>3</sup> Only one day later RIWI was named as one of Canada's Companies-to-Watch in Deloitte's Technology Fast 50™ Awards.<sup>4</sup>

Fortunately, the FY2020 numbers released on 03 March 2021 make me feel positive.

The company generated revenue of US\$ 4.6 million in 2020, up 47 % from 2019, and EBT increased to US\$ 927,115, representing an EBT margin of 20.2 % (23.3 % in 2019). The slight decrease in the margin is due to growth investments. The bottom line decreased because RIWI posted a tax recovery of US\$ 184,000 (deferred taxes) in 2019, but incurred a tax expense of US\$ 270,581 in 2020, as all tax loss carryforwards have now been used up. The tax rate in 2020 thus came in at approximately 29 %. Revenues in Q4/2020 were US\$ 1,317,838, which is only marginally less than the best quarter in the company's history (Q1/2020 with US\$ 1,322,216 in revenues).

In my opinion, RIWI is **back on track**. The MD&A contains a few exciting sections that I would like to share:

- "In February 2021, to lead our growing financial services practice, the Company hired a sales professional with over 15 years of institutional sales and business development experience increasing recurring revenues for institutional clients while working for Morgan Stanley, Zacks Investment Research, and MSCI Inc."
- "...we increased our commitment to demand-generation, outbound marketing and account-based marketing and sales in order to increase our sales pipeline..."
- "In January 2021, the Company engaged a consultant to work with our technical team to refine our offerings for traders and financial institutions."
- "Beginning in 2020, we struck partnerships to evaluate, promote, sell or market RIWI data feeds. RIWI's data marketplace partners include: Amazon Web Services, Battlefin, Benzinga, Bloomberg, Datarade, data.world, EagleAlpha, Esri, Knoema, Neudata, and ThinkData Works."
- "In 2020, RIWI earned strong market awareness in major finance media and RIWI earned new, expert validation."

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<sup>3</sup> [RIWI-NR-20-16-Nov-17-2020-A-Major-U.S.-Bank-awards-a-Significant-New-Contract-Order-to-RIWI.pdf](#)

<sup>4</sup> [RIWI-NR-20-17-Nov-18-2020-RIWI-Named-as-one-of-Canadas-Companies-to-Watch-in-Deloittes-Technology-Fast-50™-Awards.pdf](#)

- “Our future revenue growth through data partnerships also benefits from our increasingly agile technology, which now enables the easy ingestion of RIWI datasets with the technical requirements of major data marketplace partners, and from our expanded salesforce that now works closely with data marketplace partners to define sales packages for our partners’ client base.”
- “Based on management’s strategy, our milestones to create sustained growth and value include:
  - Expanding the diversity of our client base to ensure resilience and further growth. This is the goal of our investment in sales and marketing personnel during 2020 and early 2021.
  - Increasing our number of channel partners and resellers.”
- “As we continue this process of development in response to client needs, RIWI is also growing its scalability to take on many more projects, and, in the process, we are increasing data integration opportunities with new partners and resellers. For example, a wide range of consulting firms and “platform” companies – i.e., data aggregators and data access firms for finance, pharmaceutical or other data-focused industries – can now easily ingest RIWI’s raw data to fit the diverse parameters of their data delivery systems.”

**RIWI CORP.**

Statements of Income and Comprehensive Income  
For the years ended December 31, 2020 and 2019  
(Expressed in U.S. Dollars)

	Year Ended December 31	
	2020	2019 (Note 11)
Revenues (Note 10)	\$ 4,580,738	\$ 3,110,878
Expenses		
General and administrative (Note 11)	1,400,775	1,455,138
Sales and marketing (Note 11)	1,287,263	506,454
Technology costs (Note 11)	978,365	456,102
Total expenses	3,666,403	2,417,695
Income before interest and taxes	914,335	693,183
Net interest income	12,780	32,633
Income before taxes	927,115	725,816
Income tax expense/(recovery) (Note 12)	270,581	(184,000)
Net Income and comprehensive Income	\$ 656,534	\$ 909,816

Another learning for me from the FY2020 numbers was that margin is (not yet) scalable to the extent I expected. In this respect, one should take a look at the margin development in the future.

The second point I would keep an eye on in the future is the geographic distribution of revenue. As the following excerpt from the financial statements shows, the revenue growth came from Canada alone. Revenue in the U.S. was actually slightly lower than in 2019. I would expect the U.S. to have the most growth potential long-term.

	December 31, 2020		December 31, 2019	
United States of America	\$	1,716,746	\$	1,814,469
Canada		2,416,877		794,139
Europe		443,365		339,270
Other		3,750		163,000
	\$	4,580,738	\$	3,110,878

I incorporated the 2020 figures into the valuation model and rolled the model forward by one year. I asked myself which scenario the current stock price is pricing in.

The result (see pages 6+7) shows that the market expects growth of 20 % p.a. with an EBIT margin of 20-22 %. The margin only has to remain constant compared to 2019 and 2020 and the growth has to be below average compared to the last years to justify the current value. It's not unlikely that the valuation still has some room for improvement.

In my view, there are three alternative paths of action:

1. You do nothing and wait
2. You sell the shares and put the money into another company
3. Put the share price and fundamentals today in relation to where they were when I published the Research Report on 1 October 2020, and you may conclude that the risk-reward ratio is even better today than it was about five months ago. I have once taken advantage of the current somehow depressed share prices to buy a few more shares, but ultimately you have to make the decision yourself. After all, investing should not be about being right, but about making the right decisions. You can only see whether the decision was right in retrospect.

If something is exciting to report again, I will get back to you with another update. Stay tuned!

**P&L planning:**

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	TV 2028
Revenues	1.346.057	2.667.677	3.110.878	4.580.738	5.725.923	7.157.403	8.946.754	11.183.442	13.979.303	17.474.129	21.842.661	22.279.514
% YOY		98,2 %	16,6 %	47,2 %	25,00 %	25,00 %	25,00 %	25,00 %	25,00 %	25,00 %	25,00 %	2,00 %
% QoQ												
General and administrative expenses	-1.364.051	-1.830.850	-2.063.667	-2.376.792	-2.576.665	-3.077.683	-3.668.169	-4.473.377	-5.591.721	-6.989.651	-8.737.064	-8.911.806
<i>in % of revenue</i>	-101,3 %	-68,6 %	-66,3 %	-51,9 %	-45,00 %	-43,00 %	-41,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %
Sales and marketing expenses	-124.709	-111.604	-98.316	-514.942	-858.888	-1.216.759	-1.610.416	-2.124.854	-2.656.068	-3.320.084	-4.150.106	-4.455.903
<i>in % of revenue</i>	-9,3 %	-4,2 %	-3,2 %	-11,2 %	-15,00 %	-17,00 %	-18,00 %	-19,00 %	-19,00 %	-19,00 %	-19,00 %	-20,00 %
Technology costs	-605.974	-332.348	-255.711	-774.669	-1.030.666	-1.359.907	-1.789.351	-2.236.688	-2.795.861	-3.494.826	-4.368.532	-4.455.903
<i>in % of revenue</i>	-45,0 %	-12,5 %	-8,2 %	-16,9 %	-18,00 %	-19,00 %	-20,00 %	-20,00 %	-20,00 %	-20,00 %	-20,00 %	-20,00 %
<b>EBIT</b>	<b>-748.677</b>	<b>392.875</b>	<b>693.184</b>	<b>914.335</b>	<b>1.259.703</b>	<b>1.503.055</b>	<b>1.878.818</b>	<b>2.348.523</b>	<b>2.935.654</b>	<b>3.669.567</b>	<b>4.586.959</b>	<b>4.455.903</b>
<i>EBIT margin</i>	-55,6 %	14,7 %	22,3 %	20,0 %	22,0 %	21,0 %	21,0 %	21,0 %	21,0 %	21,0 %	21,0 %	20,0 %
Net interest income	2.405	23.661	32.633	12.780	0	0	0	0	0	0	0	0
<b>EBT</b>	<b>-746.272</b>	<b>416.536</b>	<b>725.817</b>	<b>927.115</b>	<b>1.259.703</b>	<b>1.503.055</b>	<b>1.878.818</b>	<b>2.348.523</b>	<b>2.935.654</b>	<b>3.669.567</b>	<b>4.586.959</b>	<b>4.455.903</b>
<i>EBT margin</i>	-55,4 %	15,6 %	23,3 %	20,2 %	22,0 %	21,0 %	21,0 %	21,0 %	21,0 %	21,0 %	21,0 %	20,0 %
Tax (recovery in 2019)	0	0	184.000	-270.581	-340.120	-405.825	-507.281	-634.101	-792.626	-990.783	-1.238.479	-1.203.094
<i>Tax quote</i>	0,0 %	0,0 %	25,4 %	-29,2 %	-27,00 %	-27,00 %	-27,00 %	-27,00 %	-27,00 %	-27,00 %	-27,00 %	-27,00 %
<b>Net income</b>	<b>-746.272</b>	<b>416.536</b>	<b>909.817</b>	<b>656.534</b>	<b>919.583</b>	<b>1.097.230</b>	<b>1.371.537</b>	<b>1.714.422</b>	<b>2.143.027</b>	<b>2.678.784</b>	<b>3.348.480</b>	<b>3.252.809</b>
<i>EAT margin</i>	-55,4 %	15,6 %	29,2 %	14,3 %	16,1 %	15,3 %	15,3 %	15,3 %	15,3 %	15,3 %	15,3 %	14,6 %

Cash flow planning:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	TV 2028
Net income	-746.272	416.536	909.817	656.534	919.583	1.097.230	1.371.537	1.714.422	2.143.027	2.678.784	3.348.480	3.252.809
Less: non-operating net interest income	-2.405	-23.661	-32.633	-12.780	0	0	0	0	0	0	0	0
Deferred tax assets / Tax	0	0	-184.000	175.716	340.120	405.825	507.281	634.101	792.626	990.783	1.238.479	1.203.094
<b>EBIT</b>	<b>-748.677</b>	<b>392.875</b>	<b>693.184</b>	<b>819.470</b>	<b>1.259.703</b>	<b>1.503.055</b>	<b>1.878.818</b>	<b>2.348.523</b>	<b>2.935.654</b>	<b>3.669.567</b>	<b>4.586.959</b>	<b>4.455.903</b>
Amortization of P&E, right-of-use assets and intangible assets	5.015	22.575	61.078	60.115	62.357	60.981	29.338	9.718	9.718	9.718	6.014	1.637
<b>EBITDA</b>	<b>-743.662</b>	<b>415.450</b>	<b>754.262</b>	<b>879.585</b>	<b>1.322.060</b>	<b>1.564.036</b>	<b>1.908.157</b>	<b>2.358.241</b>	<b>2.945.371</b>	<b>3.679.285</b>	<b>4.592.972</b>	<b>4.457.539</b>
Lease obligations	0	11.800	0	0	0	0	0	0	0	0	0	0
Share-based payment expense	323.913	416.269	545.117	92.496	0	0	0	0	0	0	0	0
Tax paid	0	0	0	0	-340.120	-405.825	-507.281	-634.101	-792.626	-990.783	-1.238.479	-1.203.094
<b>Gross cashflow</b>	<b>-419.749</b>	<b>843.519</b>	<b>1.299.379</b>	<b>972.081</b>	<b>981.940</b>	<b>1.158.211</b>	<b>1.400.876</b>	<b>1.724.139</b>	<b>2.152.745</b>	<b>2.688.502</b>	<b>3.354.494</b>	<b>3.254.446</b>
Accounts receivable	90.486	33.899	-4.051	-537.396								
Unbilled revenue	0	-574.607	-181.776	324.828								
Prepaid expenses and other assets	-28.583	29	-1.211	-30.588	-273.820	-243.093	-303.866	-379.832	-474.790	-593.488	-741.859	-74.186
Income taxes payable	0	0	0	94.864								
Accounts payable and accrued liabilities	23.784	55.574	-32.095	147.117								
Deferred revenue	223.843	-64.581	66.774	-13.895								
<b>Operating cashflow</b>	<b>-110.219</b>	<b>293.833</b>	<b>1.147.020</b>	<b>957.011</b>	<b>708.120</b>	<b>915.119</b>	<b>1.097.010</b>	<b>1.344.307</b>	<b>1.677.955</b>	<b>2.095.014</b>	<b>2.612.634</b>	<b>3.180.260</b>
Term deposit redemption	11.957	7.971	0	0	0	0	0	0	0	0	0	0
Net interest income	2.405	23.661	32.633	21.449	0	0	0	0	0	0	0	0
Additions of P&E, right-of-use assets and intangible assets	-81.806	-40.142	-5.384	-5.011	-5.000	-5.000	-5.000	-5.000	-5.000	-5.000	-5.000	-5.000
<b>investing cashflow</b>	<b>-67.444</b>	<b>-8.510</b>	<b>27.249</b>	<b>16.438</b>	<b>-5.000</b>	<b>-5.000</b>	<b>-5.000</b>	<b>-5.000</b>	<b>-5.000</b>	<b>-5.000</b>	<b>-5.000</b>	<b>-5.000</b>
<b>FCF</b>	<b>-177.663</b>	<b>285.323</b>	<b>1.174.269</b>	<b>973.449</b>	<b>703.120</b>	<b>910.119</b>	<b>1.092.010</b>	<b>1.339.307</b>	<b>1.672.955</b>	<b>2.090.014</b>	<b>2.607.634</b>	<b>3.175.260</b>
			Present Value		651.037	780.280	866.873	984.431	1.138.585	1.317.063	1.521.529	24.717.402
			Σ Present Value	31.977.201								
			thereof TV	77,3 %								
			Cash as of 31.12.2020	4.058.588								
			Debt as of 31.12.2020	0								
			<b>Equity Value</b>	<b>36.035.789</b>								
			Outstanding stock as of 31.12.2020 (basic)	18.004.428								
			Equity Value per share (US\$)	2,00								
			Current stock price (US\$)	2,13								
			<b>Upside</b>	<b>-6,2 %</b>								

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