

Lining up the multi-million dollar contracts, could this be the year that SEB soars?

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Increasing market volatility and a steady flow of unsettling news are making it challenging to be an investor right now (which is now my leading candidate for the understatement of 2022). Headlines about sanctions, interest rates, inflation, stagflation, etc. have the market flip flopping like a fish out of water. It suggests that now might be a good time to look for an investment that has a relatively stable business with good recurring revenue, preferably no exposure to Russia, and virtually no cost pressures due to supply chains or sky high fuel costs. Just look at the stock chart of the Canadian telecom BCE, Inc. (TSX: BCE | NYSE: BCE) over the last week to see how the market values these traits at present. If that is what is working right now, then I'm not going to try and fight the trend. Let's see what else is out there that might have similar qualities and maybe hasn't gone up more in a week than it had in the previous four months.

A possible candidate that meets the above criteria is [Smart Employee Benefits Inc.](#) (TSXV: SEB). SEB provides world class solutions for automating and managing business processes using SEB's proprietary technologies and technologies of SEB Partners with the flexibility to provide fully or partially outsourced solutions. More specifically, SEB is a proven provider of leading-edge IT and benefits processing software, solutions and Services for the Life and Group Benefits marketplace. The Company manages mission critical business processes for over 150 blue chip and government accounts, nationally and globally. Over

90% of revenue and contracts are multi-year recurring revenue streams contracts related to government, insurance, healthcare, benefits and e-commerce. Now you see why I suggested looking at SEB, they provide workplace benefits, which every company needs plus all that recurring revenue for these uncertain times.



[Source](#)

Another thing I really like is that a lot of the heavy lifting has been done to develop their infrastructure. Since inception in 2011 through to 2017, the Company pursued an acquisition-based strategy which led to dynamic growth. Post 2017, the Company focused on integration and consolidation of operations and technology infrastructure and cost reduction initiatives across all divisions. New organic growth strategies, in particular the Channel Partner strategy were introduced within the Benefits Operations business segment. Unprofitable client relationships were discontinued, all technologies were moved to the cloud, business processes were streamlined resulting in annual cost savings from both infrastructure and personnel of over \$5.0 million by the end of fiscal 2020. The IT backbone is in place so given the highly scalable nature of SEB's platform, once the fixed charges of operating the platform are covered, a significant portion of the incremental increases in revenue will flow directly to EBITDA and cash flow.

All this groundwork should translate into some pretty solid financials going forward in light of recent [contract wins and renewals](#). On Feb 17th the Company announced a new 3-year contract for 155,000 investment accounts to provide payment processing services for the TELUS Health virtual healthcare app; a 5-year contract with new multi-national corporate client, representing 2,300 plan members, to provide Benefits Administration services;

a new 5-year contract to provide design, set up and administration services for a white-labeled “digital retiree health insurance product” for a large national benefits consulting channel partner; and a 5-year renewal of an existing high-technology client to provide benefits administration on a fully outsourced basis, for approximately 4,500 employees. Prior to this announcement, SEB had already reported [contract wins and extensions of over \\$43.0 million](#) for Q1/22. The renewals show the stickiness or recurring nature of the business while all the new contracts should contribute nicely to the bottom line. Granted we are still waiting for Q4/21 and full year results which saw the Company [sign new contracts valued in excess of \\$140.0 million](#) for the year. These contracts extend out as long as 9 years with the majority in the 3-to-5-year range and include approximately \$47.3 million initiated in fiscal 2021, with \$61.4 million extensions and \$31.6 million of option years.

This success is why Q3/21 was the sixth consecutive quarter of positive EBITDA and Adjusted EBITDA for SEB. With Gross Margin as a percentage of Revenue hovering in the mid 30% range, all this new business gets SEB one step closer to going from EBITDA positive to potentially having a bottom line net profit in the not too distant future. Once they achieve that milestone there could be a potential rerating for this stock and we’ll be reminiscing of a time when the market cap was only C\$32 million.