

Smart Employee Benefits, a SaaS technology company poised for major growth

Every now and again, I stumble across a company with unbelievable growth potential which the market has almost completely ignored. Investor blindness is a common affliction, and is usually caused by some combination of choice paralysis and short-sightedness, but oftentimes the best investments are the ones that require detailed analysis and projection in order to get in at the low-point before the rabble have even noticed the opportunity.

Smart Employee Benefits Inc. (TSXV: SEB) (“SEB”) is a technology company providing world class solutions for automating and managing business processes for both private and government clients. The company has grown from start-up over the past six years, increasing revenues year-on-year, to reach a point of now having around 940 employees, generating over \$100 million in sales, with over \$500 million in backlog, annuity contracts and option year contracts and over 200 active clients relationships.

Additionally, the company has recently completed over \$7m of equity financing, of which insiders and existing large shareholders acquired over 80%. The CEO and entities related to the CEO subscribed for over 40% of this financing. The company has restructured its debt with a major Canadian bank to significantly reduce interest charges reducing debt service in 2017 to less than 40% of forecast 2017 cash flow. Both business units have now moved to positive cash flow with strong sustainable growth prospects. Additionally, adjusted consolidated EBITDA in fiscal 2016 was in the \$2.5m range, but is expected to increase over 500% over the next 18 months as a result of the streamlined financials and sales growth.

These massive improvements have not been reflected in the market, but rest assured, the company should soon be enjoying share values more akin to 2015 levels, if not higher. The market capitalization is approximately \$20.0M, down from the \$50.0M to \$60.0M range in 2015. Un believable!!

BACKGROUND

SEB has a very strong and growing “traditional” technology solutions and services business which provides a stable and profitable business base. It has utilized much of the cash flow from this base to create software and solutions focused on consolidating and automating the back-office business processes for managing employers and government sponsored health and pension benefits. SEB’s SaaS (Software as a Service) “benefits processing” solutions capture over 90% of these business processes, including the associated revenue. Typically, these processes are dispersed through multiple provider environments that do not talk to each other and create numerous opportunities for fraud and errors and results in poor reporting. SEB’s Processing solution are unique in the industry and address the fraud, errors and reporting issues. SEB’s solutions also have global application. SEB’s competitive advantage is:

“One Processing Environment – All Benefit Types – One Single Sign On Benefit Card”.

SEB has strategic technology partnerships with over fifteen global companies including two of the largest benefits consultants in the world and one of the largest global insurance companies. The company has invested over \$25m in software and solutions for automating and managing the back-office processes for employer and government funded benefit programs. The solutions are all cloud enabled and delivered on a SaaS platform, and as such are infinitely scalable.

The company has reached a position of sustainable positive

cash flow in fiscal 2016 which is expected to grow substantially in fiscal 2017 and beyond. The profit margins from this SaaS benefits processing business are multiples of its traditional business, with gross margins over 70% of revenue versus 19% in the traditional business. This benefits processing business unit is poised for major growth and is the primary driver of EBITDA growth in 2018 and beyond.

In Canada, this is an \$81 billion market place growing at 4% – 8% per annum even in recession. Over 10% plus, of these premiums go to pay for processing. SEB solutions capture over 90% of these processing dollars when a client is fully implemented on the platform.

SEB's target processing revenue is over \$250/annum/plan member. Currently, SEB's revenue is in the range of \$44/per annum/ plan member. The company has launched an aggressive growth strategy to transition its existing clients to its total platform. SEB currently manages over 300,000 plan members on its various platforms.

Readers should begin to see why Smart Employee Benefits is a technology company that deserves their attention.

So why is nobody buying? Due to an acquisition in December 2015, SEB became laden with additional debt, resulting in a considerable fall in share prices. Net negative earnings, combined with seemingly unmanageable levels of debt, is enough to scare away any investor, but over the past 6 months., these issues have been dealt with. The details have not been well communicated to the market. The company is now launching an aggressive "investor awareness" program to broaden its shareholder base and help investors understand the hidden value in SEB. We believe this program, together with results, will have a very positive impact on the share price.