Movers & Shakers - ASX Small & Micro Cap Industrials

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Stock markets globally retreated in September as news of inflation and economic figures continued to disappoint. Small and micro cap companies underperformed their large cap counterparts as is often the case in risk-off environments. Small industrials underperformed the broader market with the S&P/ASX Small Industrials Accumulation Index down 5.4% for the month. This compared to the S&P/ASX Small Resources index, which was down just 1.2%.

Regardless, a number of small and micro cap industrial stocks weathered the downturn and continued to head higher with a number of names witnessing significant gains. In this months edition of our newsletter we take a look at some of those names.

Live Verdure Limited (ASX: LV1)

Live Verdure, together with its subsidiaries, engages in the development and sale of plant-based products in Australia. It offers hemp based food and nutraceutical products and skincare products under the 13 Seeds and 8 Seeds brand names through wholesale, distribution, retail, and online channels. The stock spiked after it received a $1.68 million placement, ending up 269.6% for the month.

Under the terms of the placement, the company will issue 22.4 million new fully paid ordinary shares at an issue price of $0.075 per share. This issue price represented a discount of 18.5% to the company's last closing price of $0.092 on Monday 4th September 2023. The funds will primarily be used for new product development, and accelerate growth through a range of investments in marketing and sales initiatives.

The company has been the target of takeovers, and that likely resulted in the large increase in price. In the announcement to the market regarding the placement, the company stated - "Since the acquisition of Edible Beauty in 2022, Live Verdure has received an increased number of local and international inquiries regarding companies looking to be acquired by or partnering with LV1. These enquiries span a broad range of sectors within the complementary health, wellness, and beauty industry, including some that incorporate ground breaking technology, or leverage artificial intelligence (A.I) into their offerings in order to deliver human resource and digital marketing optimisations and other growth driving solutions to LV1 Brands".

Flexiroam Limited (ASX: FRX)

Flexiroam, a digital eSim and IoT company, saw its shares significantly rise after the company announced that it was set to be cash flow positive by January 2024. This will be a significant milestone for the company with the share price up 50% higher for the month on the back of the news.

Flexiroam provides cross-border mobility and eSim solutions, allowing customers to access mobility across 200+ countries, which then allows them to stay in touch and online regardless of where they are travelling.

Flexiroam provides a range of products and solutions to its customers, including Internet of Things solutions, allowing for access to IoT solutions across multi-country deployment or through cross-border mobility. Enterprise solutions allow customers to secure their connection, which can be especially useful for pilots, business travelers, super yachts, and portable devices, allowing for access to instant connectivity.

The company also announced the CEO is providing a A$400,000 loan for a 12-month term. The loan will be unsecured and has an annual interest rate of 10%, with no conversion rights. The loan will be available for use as working capital if needed with the company believing that the company will not require a capital raise to achieve its cash flow positive milestone.

Flexiroam CEO Marc Barnett commented, "We delivered on our budgeted outcomes in FY23 and in the interim FY (April-June 2023). In these periods Flexiroam demonstrated strong revenue and margin momentum, following the transformational changes we have made across the business. Flexiroam is now set up for a strong FY24 with the company further enhancing our infrastructure, products and services".

FBR Ltd (ASX: FBR)

FBR is involved in designing, building, and developing robotic systems for construction. Their Hadrian X system is one of the most advanced construction robots primarily involved in the process of laying bricks. The system can lay over 1,000 standard brick equivalents (SBEs) per hour with the potential to revolutionise the brick industry. The system is capable of building anywhere from 100-300 standard-sized homes per year.

FBR's stock spiked after news came out about the results of the latest Hadrian system testing update. The company said that its flagship device had built its first compliant structure with US format concrete masonry blocks, at an average lay rate of 240 blocks an hour and recorded a new peak speed of 326 blocks per hour. The speed is expected to be improved upon as outdoor teating work continues.

The next-generation Hadrian X® features a shuttle block delivery system capable of handling large blocks measuring up to 600mm x 400mm x 300mm and weighing up to 45kg. A longer boom reach allows the next-generation Hadrian X® to build structures up to three storeys from the roadside.

While the home building and construction industry is increasingly facing pressures from cost pressures and supply side constraints, many companyies could be lining up to buy the Hadrian device.

Post month-end, FBR announced that due to high demand for the company's technology in the US, it has made the strategic decision to reprioritise the delivery of the US-spec Hadrian X® construction robots. The company also completed an Institutional Placement, raising $6.2 million through the issue of 248 million shares at a price of 2.5 cents per share. The capital raised will be used to advance the commercialisation strategy in the US.

FBR's share price was 22.7% higher in the month of September.

Cirrus Networks Holdings Limited (ASX: CNW)

Cirrus Networks and Atturra Holdings have entered into a binding Scheme Implementation Deed (SID) under which Atturra Holdings will acquire 100% of the ordinary shares in Cirrus, pursuant to a Scheme of Arrangement. After an initial offer of 5.3 cents per share, Atturra Holdings increased the offer to 6.3 cents per share. The Scheme Consideration of 6.3 cents per share represented a 53.7% premium to the share price prior to the announcement of the Scheme.

Cirrus Networks helps advise, integrate, manage and secure IT environments. Atturra is a more broad-based IT services company that provides a range of services including cloud integration, business application, advisory, data integration and managed services. It works across a range of industries including financial, education and federal/state departments.

Cirrus provides Atturra with a broadened and complementary range of offerings, an enlarged customer base with a focus on government, energy & resources and other corporate clients, and a strengthened geographic presence in ACT, WA and VIC. This should help it fill gaps in its business model, and the synergies stemming from the acquisition are expected to help the company with accretive revenue, and an improved overall level of efficiency.

Shareholders will have the option to elect to receive the consideration in one of four ways:

- 75% cash consideration and 25% share consideration, equating to 4.73 cents cash per share and 0.0179 Atturra shares for every 1 Cirrus share held;
- 100% cash consideration, equating to 6.3 cents per share;
- 100% share consideration, equating to 0.0175 Atturra shares for every 1 Cirrus share; or
- 50% cash consideration and 50% share consideration, equating to 3.15 cents per share cash and 0.0357 Atturra shares for every 1 Cirrus share.

The transaction will be funded partly by the issuance of new Atturra shares as described above, debt financing from a new 3-year senior debt facility and Atturra's existing acquisition facility with Westpac and existing cash on balance sheet.

Sports Entertainment Group Limited (ASX: SEG)

The network of sports content and entertainment delivery, provides a range of sports broadcasting services including a radio broadcast with 1.6 million unique digital users per month. The company also broadcasts TV programs. The stock spiked after the company reported results for the year ended 30 June. The stock ended up 24.3% for the month after rallying throughout September.

Total revenue for the company increased 8% on the pcp, however EBITDA fell by 87%, primarily owing to an increase in operating costs. The increased in costs stemmed from a number of new broadcasting facilities in Sydney, Brisbane, and New Zealand. In addition to these costs, the company incurred a number of one-off costs, including the $12 million acquisition of 4KQ radio license and an investment of $3.9 million in property, plant, and equipment. It remains to be seen whether these investments will pay-off but an increasingly digital landscape should help the company to move their business forward.

A key concern for the company at present is its ability to continue as a going concern. Due to a breach of bank covenants during the June 2023 quarter, bank debt of $27.1 million has been reclassified as a current liability which is due to expire on 31 August 2024. The company obtained covenant relief for the breach and the lender stated they would not exercise its right to request immediate settlement of the liability. The company is currently dependent on the lender not requesting immediate repayment of the loan.

Elsight Limited (ASX: ELS)

Elsight is a connectivity company providing a range of modern connectivity solutions with a focus on unmanned drones. The company's stock rose sharply after it received U.S. FAA Type Certification approval for its Airobotics product. After being up over 60% at one point during the month, the stock finished up 27% at the end of the month after retreating from the initial spike. Over the past two years, mainly owing to a lack of movement on approvals, the company's stock had been trending down. The announcement changed the direction of the share price with the share price reaching a new 12-month high post the announcement.

It has taken the company four years to receive certification. The company was able to overcome challenges to ensure approvals. The Halo enabled Airobotics Optimus-1EX drone (HALO LTE) is the first and only non-air carrier drone for autonomous security and data capture that has been granted Type Certification by the US Federal Aviation Administration. This is a significant milestone for the company with Type Certificates holding significant value and importance in the aviation industry.

Meir Kliner, CEO of Airobotics, commented, "After a long profound process done with the FAA and many of our partners, we are thrilled to announce that our OPTIMUS 1-EX drone has met all of the specific airworthiness and noise standards set by the FAA."

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