

OGIB INTERIM BULLETIN #445 - January 6th, 2016

PORTFOLIO PURCHASE CORTEX BUSINESS SOLUTIONS CBX-TSXV;CTPNF-PINK

I've purchased 2000 shares of Cortex at \$2.35. It's a small position to start, but I will add as news and financials come out and prove out my growth idea.

Like several recent portfolio picks, Cortex has a strong connection to the energy industry, but is not a producer.

It automates payments between producers and their suppliers—so it's a technology company first. The technology can be used for ANY vertical; as an example they count the National Hockey League's Calgary Flames as a big customer.

But right now, almost all their business is in the oil and gas industry. A full FORTY percent of their revenue comes from the US, and they are chasing almost all their growth in the different oil and gas basins of the US.

For those of you tech savvy subscribers, this is a **SaaS** style company—**Software as a Service**, and it's the sexiest business model going. In the tech world, these stocks are getting HUGE multiples because their profit margins are so high—and they have regular recurring revenue.

Recurring access fees and recurring transaction fees account for about 98% of revenue, with 2% being custom software/labour. That monthly recurring revenue has gross margins of 50-60%--and they are VERY close to breakeven now. With \$10 million being the break-even level for the business, think that if they can increase the top line 20% a year (i.e. \$2 million), the EBITDA increase is \$1 million. Compound that at 20% a year and you see EBITDA rising \$1.2, \$1.4, \$1.7 million a year. On 9 million shares out.

They manage about \$18 billion worth of transactions a year. \$6.6 million cash, no debt and management/board own 19% of the 9 million shares out.

Cortex has a Compelling Value Proposition: they process and delivery purchase orders, invoices and delivery receipts for \$1-\$ 5.00 per document for its clients depending on a volume commitment. Gartner (a big research firm in the US) says it costs suppliers \$23 to compile, print and mail a paper based purchase order, invoice and delivery ticket.

So even at low volume and full price, they provide a 20-1 ROI. As with most SAAS models, clients don't need any real capital to get on the Cortex system. Payback can be as quick as 30 days or about 250-500 transactions. And Cortex customers reduce mailroom and accounts payable staff by...a lot. CEO Joel Leetzow told me that one Cortex customer reduced headcount by 67 Full-Time-Equivalent people in Accounts Payable alone!

There's only 9 million shares out after a *50:1 rollback in 2015. Fifty to one*. So this purchase is some of the cheapest cost stock the chart has ever seen. The five year stock chart looks horrible—down down down. This stock will always trade thinly! **It may not be for you.**

Here's why I decided to buy the stock:

1. New CEO Joel Leetzow. He was brought in from the US to turn this ship around in Q2 2105, and so far he's doing a great job. He's decreasing the net burn dramatically (see chart below); *the company is now very close to positive EBITDA*. There were a few business practices he changed (free custom/spec work), and some of it was simple cost reductions.
2. Revenue was up last quarter even as the energy market continued to implode, and even as the sales force was cut (by some 80%) to save money.
3. The company has a high percentage of recurring revenue—and a lot of it is US DOLLARS
4. They're funded—they raised \$3 million on September 2 2015 (so that \$2/share financing just came free trading this week...) for a total of \$6.6 million in gross and net cash, or 73 cents a share cash on a \$2.35 share price. And with the operating monthly burn so low, they should not have to do the regular yearly equity raise they have been—my bet is they get to

positive EBITDA and don't need the market again. Balance sheet has no debt. And now nobody internally has to worry about their paycheque and potential customers don't have to consider if the company will still be around.

5. Leverage. Only 9 million shares out. Again, leverage is in the share count, not on the balance sheet. So it only takes small increases in EBITDA to make big moves for the stock. As revenue grows and EBITDA turns positive, the scale of EBITDA growth should be very high. Such a small float takes the Market (volatility) out of the stock as well.

6. Their software is proven in the market, and they are continually getting new customers—just not as many as I think they should be.

The risks? There is of course competition, including ERP-software giant SAP. And turnarounds take more time than you ever expect.

But I think the risk here is very low. It is a niche product, so it's likely to get bought out at some point, but if Leetzow can grow the business into positive EBITDA, it won't be for the current 1.5x Enterprise Value over Sales (EV/S)—it will be more like 5x.

I'll give you a VERY brief overview, *but you can listen to Joel directly and ask him questions at the next **OGIB Management Webinar—Thursday January 14 at 115 pm PST, 415 pm EST.***

Here is the dial-in information:

Vancouver Toll: +1-604-235-2082

Toronto Toll: +1-416-915-3227

Canada/USA TF 855-327-6838

Webinar Participant Link: https://www.c-meeting.com/web3/meeting_direct_access/39878246

Please dial 5 – 10 minutes in advance and ask to be joined into the Oil & Gas Investment Bulletin - Conference Call.

Participants to be prompted to enter pass code: 65920 followed by the # key

WHERE THE BUSINESS IS AT NOW

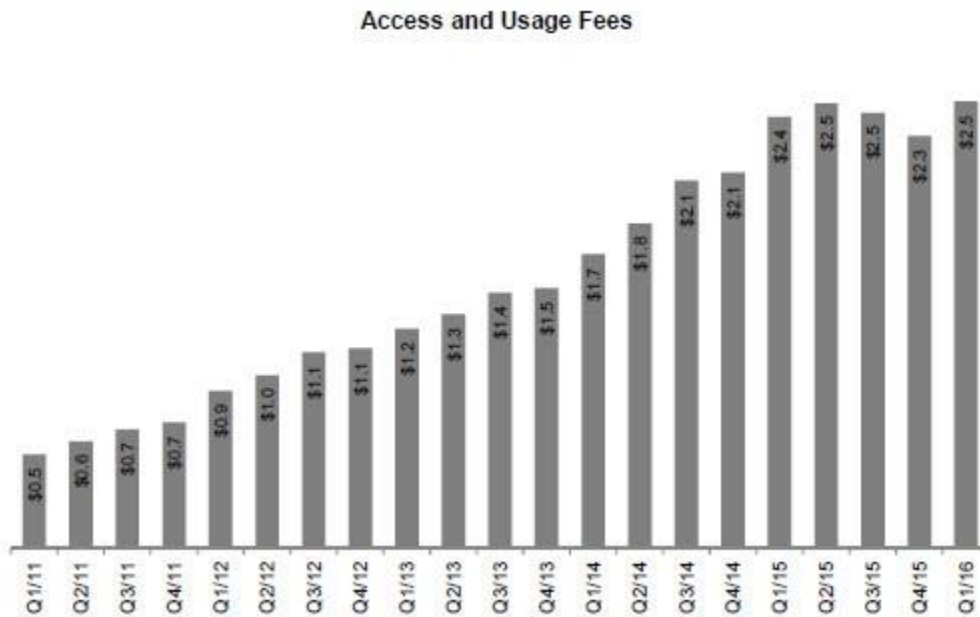
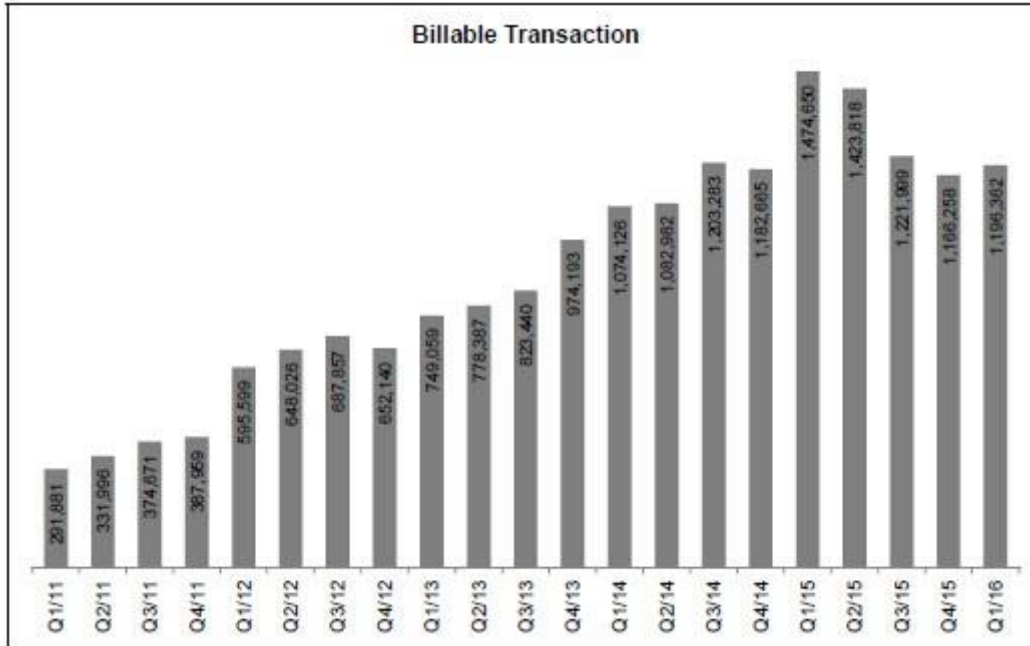
The company now has 86 active "hubs" for a total of 94 under contract with 8 in backlog. Think of these as big energy producers like **Husky (HSE-TSX)** or **Tourmaline (TOU-TSX)**. Cortex added 41 new suppliers for a total of 9,038 at the end of the quarter. They've been in business since 1999 and only have 94 major companies signed on—that doesn't sound like a lot. But they do have over 9000 suppliers, and that has to help in signing on new companies. And it works out to \$18 billion worth of transactions a year.

Here's a snapshot of the company that is similar to my Quick Facts in my reports:

FAST FACTS – Q1 F2016		
FISCAL YEAR END – JULY 31		
STOCK PRICE \$1.85	MARKET CAPITALIZATION \$16.6M	CASH (mrq) \$6.63M
52 WEEK LOW/HIGH 1.60/5.25	ENTERPRISE VALUE \$9.92M	TOTAL ASSETS (mrq) \$9.4M
AVG. DAILY VOL. (3 mo.) 11,437	TOTAL REVENUE (ttm) \$10.6M (as of Q1)	TOTAL DEBT (mrq) \$0
SHARES OUTSTANDING 8.98M	EPS \$(0.10) (as of Q1)	TOTAL LIABILITIES (mrq) \$2.1M
OUTSTANDING WARRANTS 447,580	INSIDER OWNERSHIP % 19%	FINANCING (net)* \$2.7M

*Financing occurred Sep. 2, 2015

Below are two charts—one shows that Cortex is increasing the number of transactions even as commerce in the energy sector continues to slow. The second shows the amount of recurring revenue the company is now generating:



The next two charts show overall revenue growth for five years, and the large EBITDA losses of the past—the key is, can Leetow and his team eliminate that net burn and start growing cash?



Looking back, Leetzow has made some changes to the business. They no longer do custom or spec work for free. He cut the sales team from 14 to 4 (and revenue is now going up). The R&D budget was cut in half. There are fewer officers of the company.

Looking forward, the company has a new sales strategy (besides getting customers who were getting free work to now pay for it). Cortex can now give a client instant gratification in transitioning them to the Cortex system. Cortex will themselves scan in a client's purchase orders into their system for \$1-\$1.50 each, saving them money instantly. As the client sees

it all happen, they get on board. That's how they got the Calgary Flames as a client.

A legacy \$800,000 loan from a client--scheduled to be paid off in 18months--and \$1.4 million in capitalized software--which should also be off the books in 18 months--will be a small turbo booster for EBITDA in the last half of calendar 2017. (They have a July 31 year end).

One of my big questions to Leetzow was--how would this fit into one of these big buyer's ERP system (Enterprise Resource Planning) like Oracle or SAP? He says Oracle doesn't have a module that does what they do, but SAP does (called ARIBA). He adds they do have several customers with each system, so their custom software for each client allows them to get ingrained.

And they have multiple relationships with the small and midsize workflow software companies in the business.

To many Canadian investors, Cortex is an old story. But it has new management with a new strategy, new money, a new share structure...and they are growing again. The SaaS model and the low share count says there is leverage here. BTW, the only research comes from a sell-side firm where one of the Cortex directors is the President.

I've watched the story from a distance for years, but I met Joel at *Fabrice Taylor's President's Club Conference in October* in the Bahamas, and got excited about the story. (I was very impressed with the quality of companies Fabrice brought out!)

Again--attend the conference call next Thursday! Of course both the audio and the transcript will be posted to the Members Centre within days.

-Keith