



Adcore: A Treasure Hiding In Plain Sight

Jan. 12, 2021 10:34 AM ET | **Adcore Inc. (ADCOF)** | ATY | 72 Comments | 12 Likes



Swich Research

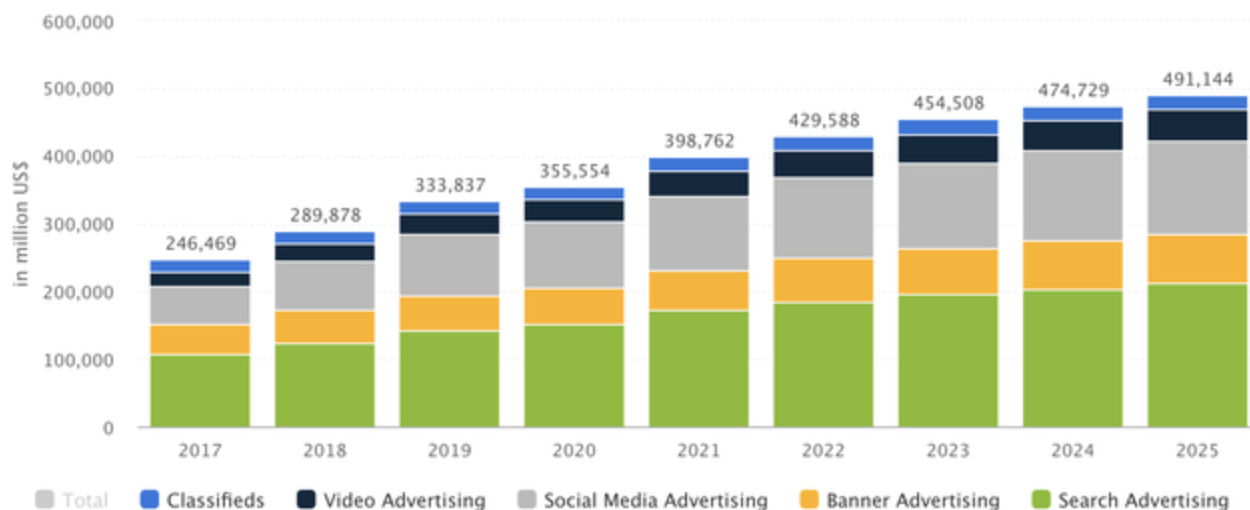
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Summary

- Adcore is a technology company providing a suite of SaaS solutions that leverage machine learning and artificial intelligence to enhance digital advertising campaigns.
- This OTC stock is undervalued when compared to its peers and the opportunities that exist in the \$400 billion global digital advertising industry in 2021.
- As with any microcap stock, there are risks with this investment, including customer concentration, fierce competition and rapid technological change.

Deep value investing is a lot like treasure hunting but instead of scouring old maps, shipwrecks, or abandoned mines, fundamentalists comb through media and financial statements to find hidden gems that may be overlooked by mainstream investors. Recently I stumbled across one of those obscure prizes in a company called [Adcore Inc. \(OTCPK:ADCOF\)](#), a digital advertising technology company providing a suite of software-as-a-service (SaaS) solutions that leverage machine learning ("ML") and artificial intelligence ("AI") to enhance search engine marketing ("SEM"). The global digital advertising market is expected to reach a value of \$491 billion by 2025.

Ad Spending



Source: Statista (Forecast adjusted for expected impact of COVID-19), December 2020

Source: [Statista Digital Advertising Outlook](#)

This diamond in the rough doesn't come without some risk and challenges though. First off, Adcore is a little challenging to trade because of the over-the-counter listing (for U.S. traders) and low liquidity. To address this, the company is looking to increase its [U.S. presence this year](#) including seeking a dual listing, the appointment of an Investor Relations firm, and a new director. Adcore has also experienced declining profitability and key customer erosion recently. That said, this is a stock that is so undervalued and poised for huge returns that you can park it in your long-term account and not have to wait too long to realize significant share price gains. In February 2020, Keystone Financial rated Adcore as a "Speculative Buy" in their [Small-Cap Stock Report](#). Some of that research is summarized here, augmented with my own analysis to lay out a map investors can use to explore [this treasure](#).

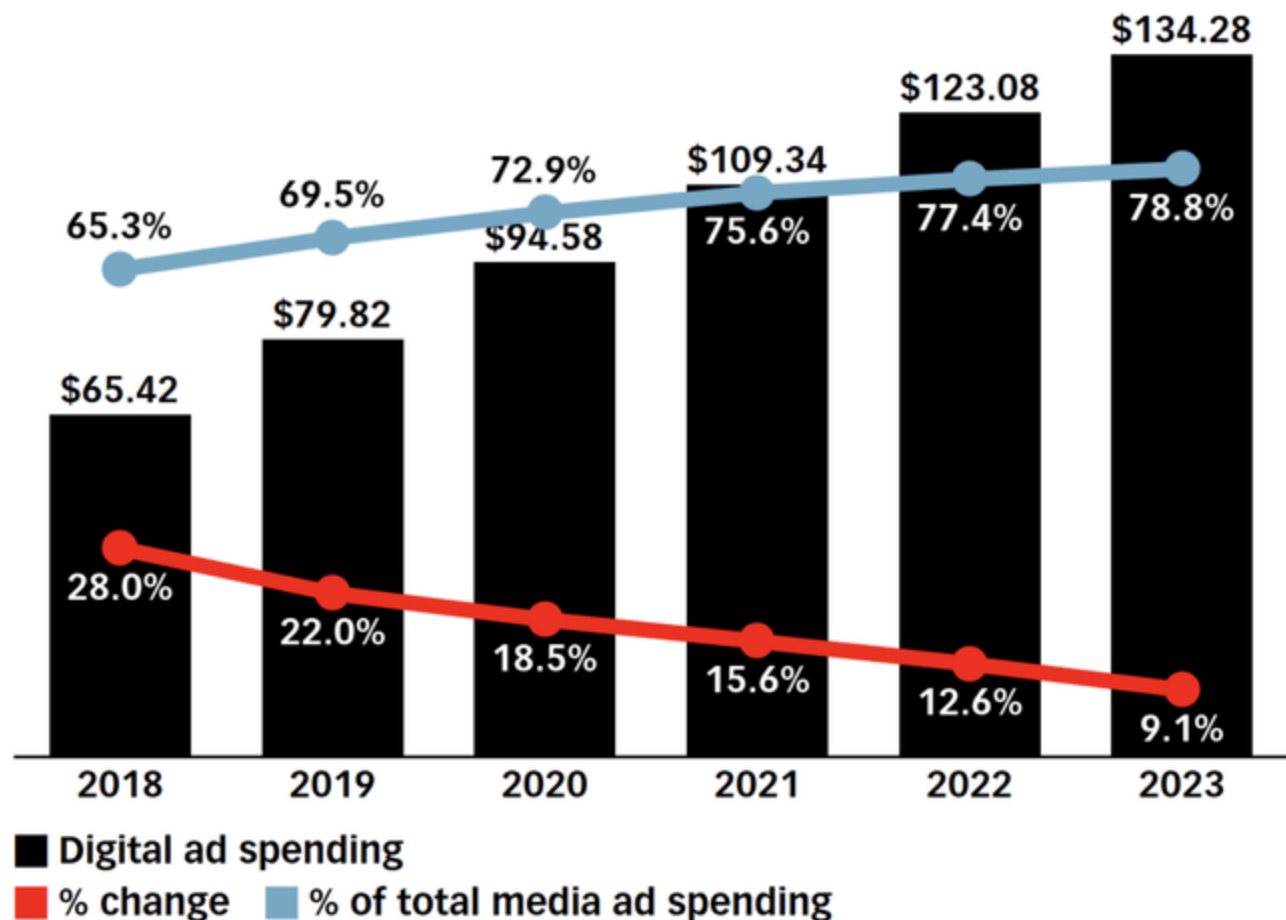
The History

Founded in 2006, Adcore first came into prominence when it was ranked in Deloitte's 2015 Technology Fast 500 Europe, Middle East & Africa (EMEA). Fast forward to 2020 and Adcore is back in the spotlight after equity fund Donville Kent Asset Management selected them as one of the "[12 stocks to own in the next decade](#)". Adcore trades on both the Toronto Stock Exchange (TSX) Venture Exchange and, in 2020, on the Frankfurt Stock Exchange (FSE), increasing liquidity through direct exposure to a diverse pool of investors.

Adcore is a true microcap, employing just over 40 people in its headquarters in Tel Aviv, Israel, with a few additional staff at satellite offices in Melbourne, Australia, and Toronto, Canada. As part of its strategic expansion, Adcore opened a regional HQ in Hong Kong in 2020, to help capture more of the online marketing business in Asia, projected to reach **\$123 Billion** in digital ad spend in 2022 and grow rapidly over the next five years. As consumer behavior changes and the regional tech-savvy companies look to smart digital marketing solutions to scale up their business, Adcore sees Hong Kong as a critical base to improve relationships with clients and partners in the region.

Digital Ad Spending in China, 2018-2023

billions, % change and % of total media ad spending



Source: [China Digital Ad Spending 2019](#)

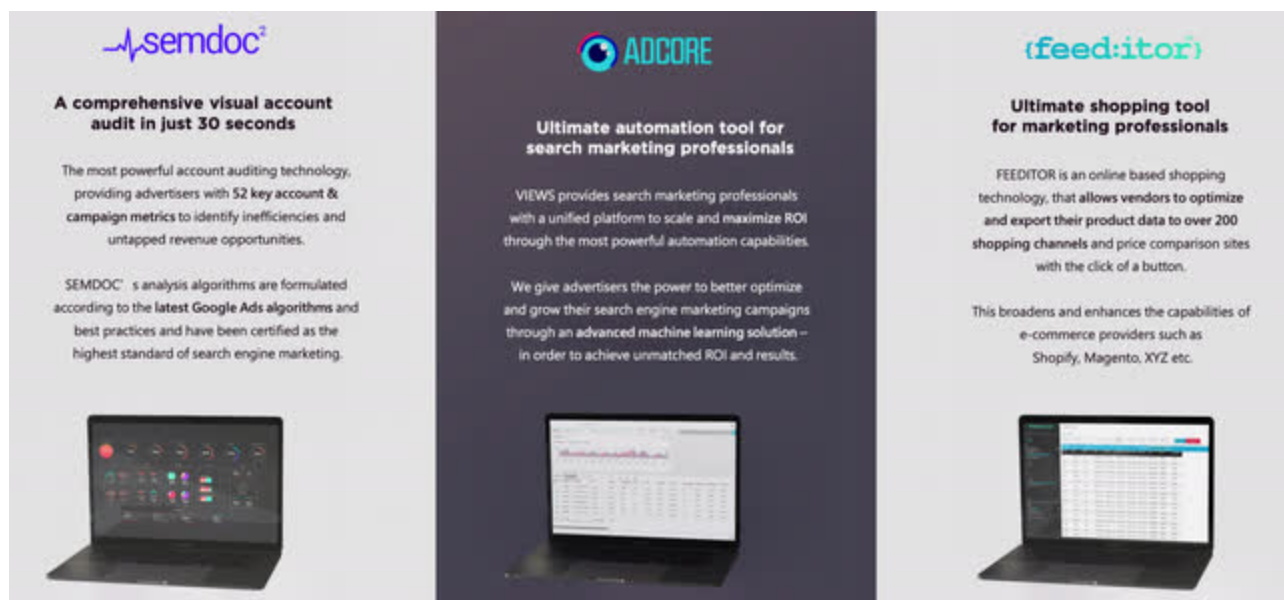
The Technology / Product Suite

Adcore's three core products are FEEDITOR, Adcore VIEWS, and SEMDOC², which provide marketing professionals, digital agencies, and advertisers with smart algorithm-powered automation tools, reporting, and analytics to help them improve their online advertising effectiveness, maximize return on advertising investment, and scale-up digital campaigns.

FEEDITOR (2015): provides advanced on-line shopping automation capabilities to advertisers. FEEDITOR uses machine learning algorithms to ensure that ads are seen at the right place, at the right time, and at a competitive price. From its ability to automate over one million campaigns to its inventory plug-in, FEEDITOR ensures that advertisers' ads are always up-to-date and in sync with their inventory.

Adcore VIEWS (2017): focuses on search automation, providing advertisers with a powerful algorithm bid management feature to create and automate their own rule-based campaign management solution. Adcore VIEWS uses both machine learning and historical data to optimize and manage advertisers' campaigns efficiently to ensure targets are met as effectively as possible according to each user's specified needs.

SEMDOC² (2018): provides advertisers a powerful account auditing solution, utilizing both machine learning and smart algorithms to formulate 52 key insights and metrics at the account and campaign level. SEMDOC²'s powerful visual dashboard gives advertisers a clean and simple user interface to pinpoint exact areas of weakness and missed opportunities, guiding them to superior results.

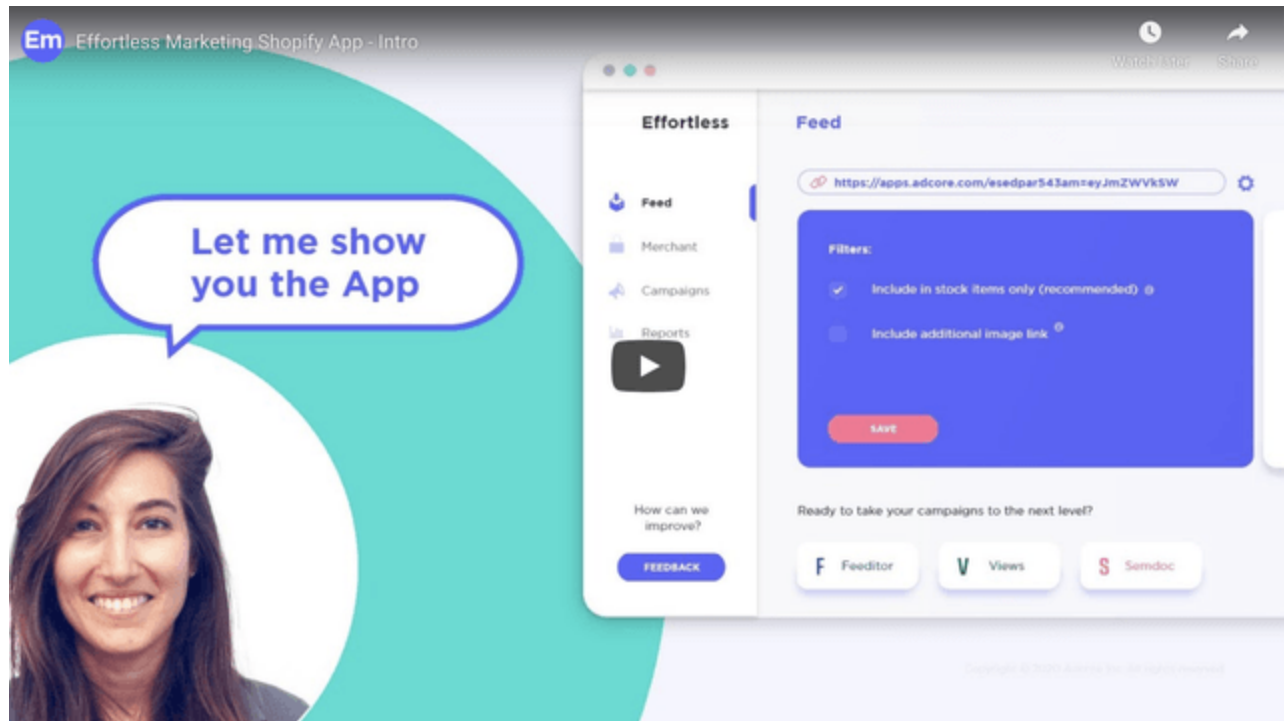


The image displays three vertical panels, each representing a different marketing technology. Each panel features a logo at the top, a headline, descriptive text, and a laptop showing the software's interface at the bottom.

- SEMDOC² Panel:** The logo is a purple heartbeat line with the text 'semDOC²'. The headline reads 'A comprehensive visual account audit in just 30 seconds'. The text describes it as the most powerful account auditing technology, providing 52 key account & campaign metrics to identify inefficiencies and untapped revenue opportunities. It notes that SEMDOC²'s analysis algorithms are formulated according to the latest Google Ads algorithms and best practices, certified as the highest standard of search engine marketing. The laptop shows a dashboard with various charts and data points.
- ADCORE Panel:** The logo is a blue circle with a white dot inside, followed by 'ADCORE'. The headline reads 'Ultimate automation tool for search marketing professionals'. The text states that VIEWS provides search marketing professionals with a unified platform to scale and maximize ROI through the most powerful automation capabilities. It mentions that the tool gives advertisers the power to better optimize and grow their search engine marketing campaigns through an advanced machine learning solution to achieve unmatched ROI and results. The laptop shows a dashboard with a line graph and data tables.
- FEEDITOR Panel:** The logo is the text '(feed:itor)' in a teal color. The headline reads 'Ultimate shopping tool for marketing professionals'. The text describes FEEDITOR as an online based shopping technology that allows vendors to optimize and export their product data to over 200 shopping channels and price comparison sites with the click of a button. It notes that this broadens and enhances the capabilities of e-commerce providers such as Shopify, Magento, XYZ etc. The laptop shows a dashboard with a table of product data.

Source: [Adcore Investor Presentation](#)

Effortless Marketing® (2020): an exciting addition to the suite was introduced in 2020 when [Adcore launched](#) its Effortless Marketing application, targeting over one million Shopify store owners who generate **\$319 billion** in global e-commerce activity. Effortless Marketing is a comprehensive solution providing advanced functionality for Shopify store owners to facilitate their marketing efforts with Google Shopping, Facebook Catalog, Microsoft Shopping, and more with just the click of a button. This initiative opens up for Adcore the huge global e-commerce market, which has grown from \$2.4 trillion to an estimated \$4.2 trillion in 2020.



Source: [Adcore Effortless Marketing Shopify App](#)

The Markets

As mentioned, digital advertising is a massive industry that is growing quickly. Companies like Google, Facebook, Amazon, and others have developed elaborate platforms and programs to sell advertising space to capitalize on the value of their highly-trafficked sites. This has created a market for software tools to help advertisers run advertising campaigns on these sites to optimize spending, improve results in analyzing the volume of available targeting data generated, and more effectively manage promotions.

Adcore targets three key digital advertising market segments with its solutions: search engine marketing, social media marketing, and shopping. The search market segment refers to ads displayed on search result pages and accounts for about 40% of digital advertising. The market is dominated by Google AdWords, which has added and changed functionality frequently over the years to improve user experience. This has increased the complexity of using the platform to run successful campaigns, challenging small and medium advertisers who have had to invest to keep pace.

Social media marketing is projected to reach [US\\$26 billion](#) worldwide in 2020 and continue to grow. It reflects about 22% of total digital ad-spend and includes promoting pages, discount ads, and boosting posts. Shopping advertising represents about 10% of the digital advertising market and features Pay-Per-Click (PPC) advertising geared towards the sale of products or other inventory on shopping sites like Amazon or search engines such as Google. Shopping ads typically allow users to add images, prices, discounts, and other custom details.

Adcore operates in the largest market segment, search advertising, and plans to further develop its technologies to penetrate deeper into both social and shopping advertising. They are also looking to solidify strategic agreements with other channels like Bing and Amazon to generate a more powerful network effect and realize cost advantages through economies of scale. Adcore is also keeping an eye out for strategic acquisition opportunities of established digital agencies with strong client accounts, and/or the acquisition of attractive tech IP, to enhance its platform, drive revenues and increase margins with their existing client base.

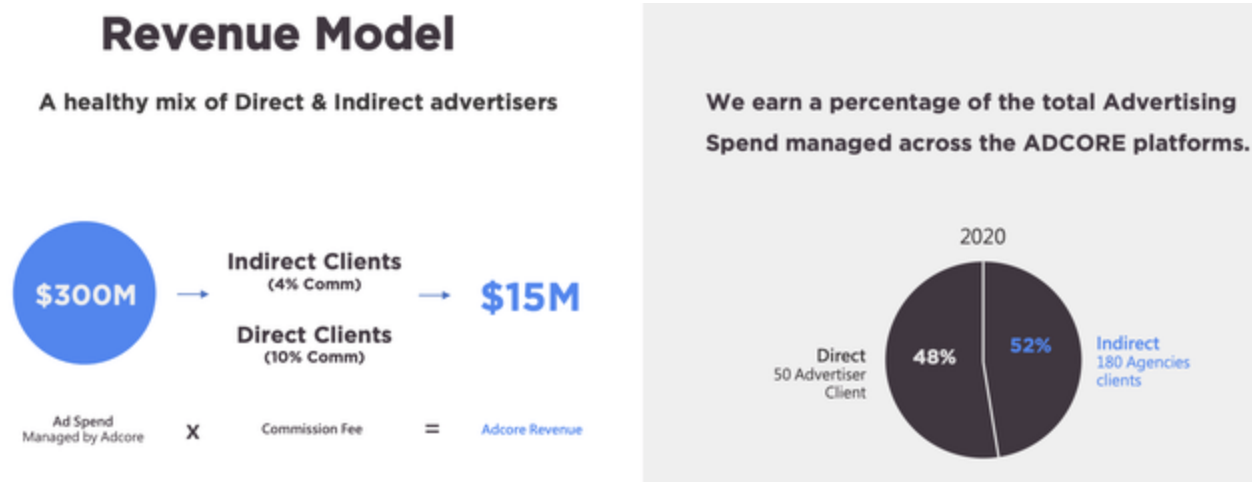
The Partnerships

Already a Google Premier Partner, in 2019 Adcore was named Channel Partner of Microsoft Ads, the world's second-largest search advertising network. This provides access to Microsoft resources such as product betas, on-site support, technology consulting, etc. It expands Adcore's online advertising performance offering for customers who will benefit from exposure to a larger base of audiences on Search, Display & Social Networks, including LinkedIn.

Completing the Trifecta in October 2020, Adcore became a [preferred agency partner](#) in the Facebook Marketing Partner for Agencies program (for companies that meet Facebook's highest standards of performance and service). This provides Adcore increased visibility with new potential clients and access to exclusive partner-specific resources such as dedicated support, insights, product updates, and more.

The Customers

Adcore serves a global client base of small, medium, and enterprise-sized businesses that include digital marketing agencies, e-Commerce businesses, travel, fintech, and gaming companies. A snapshot from the corporate presentation explains their revenue model, which features both commissions from clients and a percentage of total advertising spend:



Source: [Adcore corporate presentation](#)

Adcore's customer growth increased 415% year-over-year and includes over 10,000 digital advertising accounts and more than 400 agency and direct clients. Its biggest contract win thus far was a co-managed 5-year \$125 million contract with the Israel Government Advertising Agency (IGAA), the largest online tender in Israel. The original contract calls for Adcore to jointly manage a >\$20 million annual budget of online advertising spend. It is renewed annually, without a requirement for further government tendering. To promote the effectiveness of the platform currently being used to power IGAA's advertising campaigns Adcore likes to point out how tourism in Israel has been increasing annually since the implementation of the contract.

The Q3 Results and Q4/FY2020 Projection

One of the key risks with any small, young company is customer concentration. In November, Adcore issued a [press release](#) to inform the market of the loss of one of their major customers. Despite that setback, Adcore provided this positive guidance:

Despite the conclusion of a significant global agreement with a large ad network client during the fourth quarter ended December 31, 2020, [Adcore] is on track to report an increase in 2020 revenue of greater than 15% compared to 2019. The Company has been experiencing strong growth in its direct clients' activity during the fourth quarter of 2020 and believes this trend will continue into 2021.”

The COVID-19 crisis also hit Adcore hard and was reflected in their poor Q2 numbers. To their credit, management responded quickly in March with cost-cutting measures including a workweek reduction to four days, a temporary freeze in recruitment, and a 5% cut in its workforce (retaining all strategic employees). In June, Adcore reported that the business environment had dramatically improved so they returned to a 5-day work week and recruiting efforts resumed.

As a result of their quick and decisive action, Adcore bounced back with solid 3rd Quarter results in November. The strong rebound included total revenue of \$4.1 million, a 105% increase over the dismal 2nd quarter but only a 3% increase compared to Q3, 2019. Gross margin (revenue minus media costs) decreased by 4% YoY but was still a healthy 60%. Adjusted EBITDA decreased by 37% to \$925,000 compared to \$1.46 million for the same period in 2019, but total working capital increased by 27% to \$7 million. The improved profitability and liquidity are promising amidst the challenges and investments made to expand global operations and enhance their technology.

| | <u>2018</u> | <u>2019</u> |
|---|-------------|--------------|
| Increase in cash and cash equivalents | 111 | 2,720 |
| Cash and cash equivalents at beginning of the year | 879 | 990 |
| Cash and cash equivalents at the end of the year | 990 | 3,710 |

Source: Author's Research

For my “cocktail napkin” Q4 and full-year ER estimate (below), management’s updated growth projection of 15% over 2019 (see above) was used. The actual 9-month revenue was then backed out to calculate the Q4-specific numbers, which are high relative to previous quarters so will require some Herculean efforts to achieve, especially with the loss of a key customer. Adcore management confirmed for this article that they are still on track to hit that target. The 60% margin (as reported in Q3) is applied to estimate Cost of Revenue. For the remaining line items, each was calculated as a percentage of revenue, based on that percentage in Q3. Not perfect but close enough to come up with an EPS estimate of \$0.02 for full-year 2020.

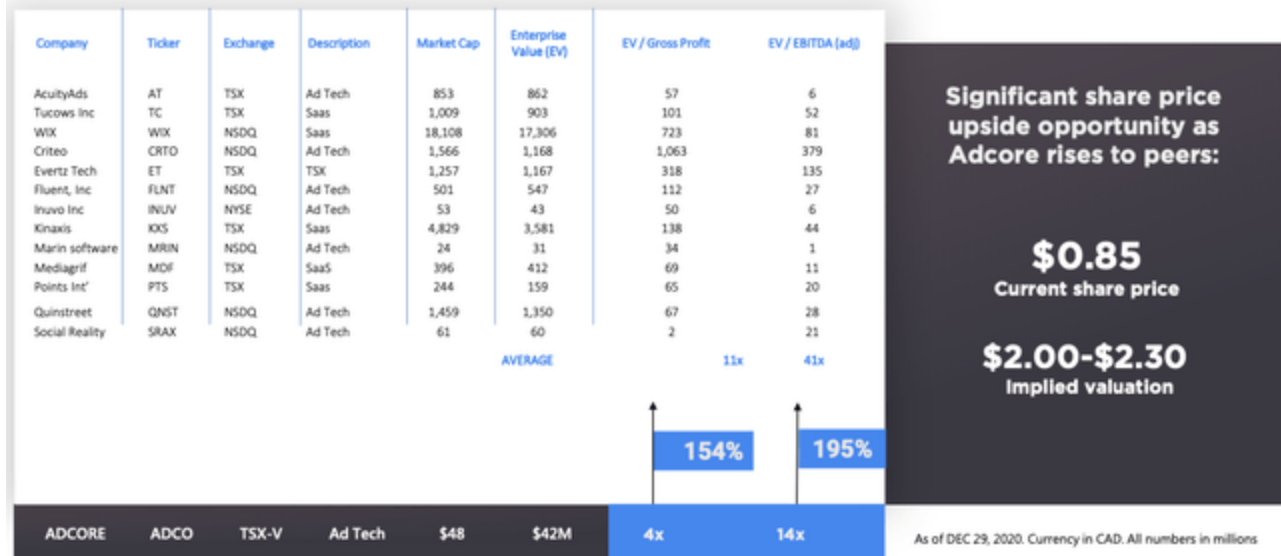
| CONSOLIDATED STATEMENTS OF INCOME (US\$, 000s) | 2018 | FY2019 | 2020 | 2020 | 2020 | % | 2020 |
|--|--------------|--------------|---------------------|-----------------|----------------|-----|--------------|
| | Fiscal Year | Fiscal Year | 9-mths (to Sept.30) | Q3 (to Sept.30) | Q4 (to Dec.31) | | Fiscal Year |
| Revenues | 8,570 | 11,301 | 6,793 | 3,023 | 6,203 | 15% | 12,996 |
| Cost of revenues | 3,797 | 4,008 | 2,187 | 1,199 | 2,460 | 40% | 4,647 |
| Gross profit | 4,773 | 7,293 | 4,606 | 1,824 | 3,743 | | 8,349 |
| Research and development expenses | 416 | 590 | 582 | 245 | 503 | 8% | 1,085 |
| Selling, general and administrative expenses | 2,264 | 3,243 | 2,901 | 1,053 | 2,161 | 35% | 5,062 |
| Listing Expenses | - | 1,541 | - | - | - | - | - |
| sub-total/ | 2,680 | 5,374 | 3,483 | 1,298 | 2,663 | | 6,146 |
| Operating profit | 2,093 | 1,919 | 1,123 | 526 | 1,079 | | 2,202 |
| Financial expenses | 261 | 369 | 220 | 114 | 234 | 4% | 454 |
| Financial income | 7 | 124 | -64 | -58 | -119 | -2% | -183 |
| sub-total/ | -254 | -245 | 156 | 56 | 115 | | 271 |
| Profit before taxes on income | 1,839 | 1,674 | 967 | 470 | 964 | | 1,931 |
| Taxes on income | 159 | 356 | 296 | 171 | 351 | 6% | 647 |
| Net Profit | 1,680 | 1,318 | 671 | 299 | 614 | | 1,285 |
| Other comprehensive expense : | | | | | | | |
| Total actuarial (income) loss on defined benefit pension schemes | -6 | 35 | - | - | - | | - |
| Total other comprehensive income | -6 | 35 | 0 | 0 | 0 | | 0 |
| Total comprehensive income for the year | 1,686 | 1,283 | 671 | 299 | 614 | | 1,285 |
| Basic profit per share attributable to shareholders (*) | 0.04 | 0.03 | 0.005 | 0.012 | 0.011 | | 0.02 |
| Diluted profit per share attributable to shareholders (*) | 0.04 | 0.03 | 0.005 | 0.011 | 0.010 | | 0.02 |
| Weighted average number of ordinary shares | 40,482,552 | 49,366,023 | 55,708,706 | 55,708,706 | 55,708,706 | | 55,708,706 |
| Weighted average number of dilutive ordinary shares | 40,482,552 | 51,474,197 | 59,496,828 | 59,496,828 | 59,496,828 | | 59,496,828 |

Source: Author's Research

Adcore was on track to have a potentially blow-out 2020 but the negative impact of Covid-19 and the loss of \$1.5 million in revenue from the customer agreement termination hits hard for a small company. Now Adcore must demonstrate that its business model is robust and versatile enough to overcome these kinds of setbacks. CAGR over the last eight years is a respectable 39% but profitability and EPS have been declining in recent years. Adcore needs to reverse that trend to deliver the share price returns investors are looking for in this lucrative industry.

In its corporate presentation, Adcore provides the following comparison of the company's valuation relative to its peers:

Comparable Companies



Source: Adcore corporate presentation

For investors, the forward guidance and supporting details the company provides in its upcoming full fiscal year earnings call will be key to effectively determine a fair share price value.

The Other Key Metrics

Adcore's other key metrics are off the charts and to a fundamental analyst, support the hidden treasure analogy when the undervalued share price is considered. The business metrics (below) stack up very well compared to another powerhouse "diversified media" technology provider, AcuityAds Holdings, Inc. ([OTCQX:ACUIF](https://www.otcmarkets.com/stock/ACUIF)), as well as against the industry average:

| FUNDAMENTAL ANALYSIS | Adcore Inc | AcuityAds Holdings Inc | Media Diversified |
|---------------------------------------|-------------------|------------------------|-------------------|
| | (to September/20) | (to September/20) | |
| PER SHARE DATA | | | |
| Earnings (TTM) | \$0.04 | \$0.03 | \$0.02 |
| Book Value | \$0.13 | \$0.33 | \$0.29 |
| Cash Flow (TTM) | \$0.04 | \$0.20 | \$0.17 |
| VALUATION | | | |
| Price/Earnings | 28.2x | 417.8x | 417.8x |
| Price/Sales (TTM) | 4.3x | 7.0x | 12.8x |
| Price/Book (MRQ) | 6.5x | 47.9x | 44.4x |
| Price/Cash Flow (TTM) | 21.4x | 78.0x | 78.0x |
| PROFITABILITY | | | |
| Gross Margin | 68.75% | 51.11% | 53.12% |
| Operating Margin | 22.61% | 2.99% | -64.66% |
| Profit Margin | 16.69% | 1.40% | -66.64% |
| MANAGEMENT EFFECTIVENESS (TTM) | | | |
| Return on Assets | 21.20% | 2.55% | -13.28% |
| Return on Equity | 29.81% | 10.68% | -4.13% |
| Return on Investment | 27.33% | 6.07% | -4.94% |
| FINANCIAL STRENGTH (MRQ) | | | |
| Debt to Capital | 3.27% | 55.57% | 52.39% |
| Current Ratio | 4.0x | 1.2x | 1.2x |
| Quick Ratio | --- | --- | --- |
| SIZE | | | |
| Market Cap | \$43.31M | \$754.6M | \$670.5M |
| Revenue | \$13.0M | \$108.4M | \$96.3M |
| Shares Outstanding | 56.2M | 52.8M | 56.7M |
| Employees | 35 | 168 | 153 |
| Institutional / Insider Ownership | 83% | --- | |
| Revenue Growth | -5.61% | -4.55% | |

Source: Author's Research

While Adcore does not yet have the revenue size or the meteoric early growth of an industry powerhouse like AcuityAds, if they can maintain the health of their other metrics as they grow then they should also expect a steady rise in their share price.

The Risks

The digital advertising industry is highly competitive, fragmented, faced with rapid technological change, frequent new product and service introductions, changes in customer requirements, and evolving industry standards. If that weren't challenging enough, Adcore competes globally with large, well-established multi-national digital advertising agencies with their own often proprietary technologies. As new products and services are introduced to that marketplace, this competition will intensify. New industry standards or rules could also negatively impact Adcore's competitiveness.

Another risk factor is that a significant amount of Adcore's revenue is derived from its Adcore VIEWS platform for search and shopping advertising. With Google representing over 90% of worldwide search engine market share, a significant amount of the company's revenue depends on Google and its performance as a search engine. If anything occurs to disrupt the market traction for Google and/or Adcore VIEWS, the company's future operations and financials could be negatively impacted.

As already discussed, a significant amount of Adcore's revenue is derived from a handful of major customers. As was demonstrated in Q4, when any of these large customers reduce or terminate their working relationship, revenue is significantly impacted. Adcore needs to continue to work hard to diversify its customer base while ensuring relationships continue to be profitable to all parties.

Finally, Adcore maintains IT infrastructure at facilities in Canada and Israel that store data and deliver advertising campaigns for its customers. This provides redundancy and geographic dispersion to mitigate business continuity risk but the Middle East is considered a riskier jurisdiction in the markets than a North American-based operation so this must be factored in.

Conclusion

Adcore is a relatively young company with limited history so applying fundamental analysis and calculating a fair valuation comes with a great deal of uncertainty. That said, Adcore has enjoyed strong revenue growth and profit margins over the past few years. The low float of 56 million shares with over 80% held by insiders (the founder and CEO has the largest percentage), typically ensures management decisions will look after shareholders' best interests. With a solid business foundation, global footprint, and innovative technology offering management's focus needs to be on continued profitable, diverse growth without dilution.

While growth remains robust in digital advertising, competition and challenges are increasing apace. Adcore must ensure they stay ahead of the curve in terms of technology investments while also maintaining profitability. This can be very difficult but management has done a great job thus far in sustaining a strong balance sheet while growing operations globally and implementing innovative new features. Management has indicated they are preparing to release more exciting updates in the near future to make their technology offering even stronger.

As more businesses across the globe undergo a major digital transformation and exploit online activities, Adcore's suite of technology and growing footprint positions it well to help monetize this paradigm change. As the world moves beyond the pandemic crisis and the global economy recovers, this should produce strong growth for Adcore's revenue and a commensurate boost in the share price.

This article was written by



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Disclosure: I am/we are long ADCOF. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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