

Update for IDN: Good Buying Opportunity

By Maxim Bogomaz

Since I wrote about IDN, the stock went down 18% and 2 quarters passed, so I think it is time to make an update.

The company's revenue growth was not as expected by the street. In Q1, SaaS revenue grew only 24% y-o-y. COVID is a strong headwind for the company since the volume of scans is lower compared to the normal period. At the Q1 2020 Earnings Call, management commented that the volumes of scans dropped 20% compared to the previous period. Based on Equifax's data on PLCC originations, the origination volumes were similarly down around 20%. Therefore, excluding COVID impact, the growth should have been 44%.

On implementations numbers, during Q4 FY20 and Q1 FY21, IDN did 8 and 4 respectively. While usually there are no implementations during Q4, this time was different because everything was closed down. Q1 implementations were slightly below what I was expecting (7). Management did not give the number of implementations for this quarter during the Earnings Call, even though they were asked twice about it, and they provided it in the previous quarters. This decrease in transparency is a little bit concerning, as it suggests that there might something else going on behind the scenes.

This time, management decided to provide information that they signed 25 NDAs "with prospects ranging from the top banks to potential resellers". This indicates that one of these NDAs were signed with one of the top 10 banks. If IDN manages to sign one more bank, this would create a potential revenue opportunity of \$100m. Therefore, this is a very positive indicator. Moreover, in my base case, I expect IDN to complete around 30 – 35 implementations this year. So, if they can convert a substantial number of these NDAs, this would mean that the thesis is still intact. Management also commented that they are "seeing the ability to increase our pricing", which would have a substantial revenue boost. The number of salespeople has increased by 3 and will continue to increase. This is going as expected and should increase revenue going forward.

Going a little bit away from the earnings, in my research, I discovered that there is a terminal value risk for IDN that I did not know about initially. It is expected that within the next 10 years, most people will use [apps for Drivers Licenses](#). Some states are [already rolling out smartphone-based driver licenses](#) and COVID might have accelerated this trend. However, I think it will take many years for these licenses to get adoption, as this a departure from the way things were for a long time in the US.

Overall, these two quarters do not give me clear indications about whether there is a problem with the thesis. I expected that COVID can have a worse than expected impact on scanning volumes and, therefore, on revenue. The next two quarters will show a better picture of what is actually going on. I would be worried if volumes do not recover closer to pre-COVID levels and/or implementations are significantly below my expectations. It seems that r/r in the short to medium is very attractive, as there are no meaningful fundamental changes to the thesis. Most things happened as was expected in my base thesis, despite a slightly smaller number of implementations. One area that changed for me is that I viewed IDN as a long-term position, whereas now it is short to the medium-term position. This affects my position sizing and selling conditions going forward.