



GORDON CAPITAL REVIEW



122.22	810.54
194.20	121.45
23.14	192.43
	22.85



Small & Micro Cap Review

May 2011

Gordon Capital Pty Ltd

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DATADOT TECHNOLOGY LIMITED

Restructured and repositioned with a substantially reduced cost base and now focussed on driving growth from its two technology platforms.

DIRECTORS

Bruce Rathie, Chairman
Ben Bootle, Managing Director & CEO
Gary Flowers, Non-Executive Director
Alison Coutts, Non-Executive Director

MARKET DATA

ASX Code:	DDT
Current Price	\$0.037
52 week Share Price Range:	\$0.025 - \$0.06
Market Capitalisation:	\$17.6 million
Enterprise Value:	\$12.5 million

CAPITAL STRUCTURE

Shares on Issue:	474.5 million
Quoted Options:	0.5 million
Performance Share	19.4 million
Rights:	

FINANCIAL SUMMARY

\$mill	2009-10 (A)	Interim 2011
Operating Revenue	10.0	4.1
EBITDA	1.6	0.2
Net Profit	0.9	0.5
Net Cash	1.6	5.1
Shareholders Equity	3.2	8.7
Total Assets	5.1	11.2

MAJOR SHAREHOLDERS

CSIRO	7.1%
Bannaby Investments	6.1%
TM Consulting	5.5%

CORPORATE DETAILS

Unit 9, 19 Rodborough Rd
Frenchs Forest, NSW, 2086
(Ph) 02 8977 4900

www.datadotdna.com

KEY POINTS

- DataDot Technology has developed a range of products based on two core technologies that underpin a wide range of solutions to effectively manage assets and to protect assets from theft, and brand and IP counterfeiting. These are enormous markets where losses are estimated to exceed US\$200 billion annually.
- New management has repositioned the company, substantially reduced costs and is now focussed on driving growth from its two technology platforms.
- Strong sales growth and a return to profitability are expected in 2011-12 as economic recovery takes hold in Europe and the US, as supply chain issues with the Japanese auto industry are resolved, new distributors build sales momentum and recent business development initiatives bear fruit.
- Sales of microdots are expected to at least double to over \$20 million over the next five years. DataTraceDNA sales are expected to reach at least \$10 million over the same period with the potential to achieve a similar level to microdots.
- The core microdots business, DataDotDNA, has an established global manufacturing and distribution system with considerable growth opportunities in new geographies and new, non-automotive, market segments.
- DataTraceDNA has established a sales base with customers in a range of industries and trials are being conducted by potential customers in Australia and overseas. Revenue growth could be steep off a low base with a very real possibility that a customer could provide a large "company making" sales opportunity.
- The company's balance sheet is very strong with net cash reserves of more than \$4 million, representing about 50% of shareholder equity.

INVESTMENT PROPOSITION

DataDot Technology is a high growth stock with expectations that it will more than double in size over the next few years as the established business expands into new geographies and market segments and as its new technology platform is commercialised.

There is no doubt that 2011 is disappointing and weighs heavily on the share price. However, the share price seems to discount the likely strength of recovery into 2012 and the level of sustainable long term growth. Our analysis points to a valuation significantly higher than the current share price based on sustained growth of around 15% per annum from the established business.

When viewed against the achievements of the past two years restructuring, 2011 could be viewed as a setback. However, the downturn in 2011 largely reflects the company's over exposure to the auto industry, which it has acknowledged. Various initiatives have been undertaken to diversify industry exposure and to provide a more balanced sales mix although they will take some time to generate significant results.

The company's tracer technology, DataTraceDNA, which will address valuable new market opportunities, provides considerable "blue sky" potential. Existing customers are applying the technology in various markets including casino chips, security seals, high security printing and textiles. Prospective customers are currently undergoing pilot trials and significant sales are expected. Investors appear not to appreciate the impact this technology is likely to have in driving growth and adding value to the company.

The catalysts for a recovery in the share price will be confirmation of a return to growth in sales, recovery in profitability, positive announcements regarding DataTraceDNA and confirmation of success of the commercialisation strategies.

RECENT ANNOUNCEMENTS

29 December 2010 [New Distributor Appointed in Brazil](#)

DataDot has entered into Distributor Territory Deeds with DNA Security Consultoria Técnica em Veículos LTDA (DNA Security) to sell DataDotDNA and DataTraceDNA products in Brazil. DNA Security is a subsidiary of DEKRA Brazil. DEKRA Brazil has grown over the past two years to be one of the most successful international subsidiaries of DEKRA, a leading global service provider in the automotive field based in Stuttgart, Germany. DNA Security has a history of selling around 300,000 car stencils (anti-theft markings) in the automotive market for insurance companies, rental companies and the end consumer.

14 January 2011 [New Manufacturing Agreement with STI](#)

DataTraceDNA has signed a manufacturing agreement with Surface Technology, Inc of New Jersey, USA. The agreement allows both companies to use DataTraceDNA in a break-through composite plating process that enables DataTraceDNA to be chemically plated onto metal, plastic and glass, thus providing authentication of manufactured products.

18 February 2011 [Half Year Results](#)

DataDot Technology reported an 18.7% decline in revenues for the six months to 31 December 2010 compared with the same period in 2009. EBITDA for the same period was \$677,621, a decrease of 15.7% compared with the prior year. Consolidated net profit from continuing operations after income tax for the half-year was \$481,530 (2009: \$632,300). These results include a one-time favourable adjustment of \$552,134 for the revaluation of DataDot's investment in DataTraceDNA Pty Limited. The operating result was primarily affected by weak automotive markets in Europe.

29 April 2011 [Market Update](#)

Revenue for the year to 30th June 2011 is likely to be in the range of 20% to 30% lower than the \$10 million achieved in FY 2010. Earnings will be impacted by this reduction in revenue. Revenue in the June 2011 half year has been adversely impacted by the serious supply chain disruptions to Japanese and other motor vehicle manufacturers' production caused by the earthquake and tsunami that devastated northern Japan in March and which has contributed to lower sales of DataDotDNA to vehicle distributors globally.

BUSINESS OVERVIEW

DataDot is a provider of theft deterrence, anti-counterfeit, fraud protection and asset management solutions. Utilising its core DataDotDNA and DataTraceDNA technologies, separately, together or in combination with other technologies, the company has the capabilities to provide comprehensive asset identification and authentication solutions. DataDot Technology utilises two core technology streams to deliver the core customer value propositions of asset and brand protection; microdots and micro-particle tracers. Competitive advantage is sourced from technical advances in the underlying technology and the ability to package the technology into a comprehensive unique solution.

DataDotDNA microdots are tiny polymer particles which are inscribed with a unique, microscopic identification code such as a vehicle identification number (VIN), pin number, business name or other code that provides identification of individual assets. DataDotDNA is ideally suited to high value, movable objects where theft would create significant disruption, inconvenience or economic loss. The company's primary market is motor vehicles although the construction and industrial equipment markets are becoming increasingly important.

DataTraceDNA is an emerging global solution incorporating patent pending technology developed in association with CSIRO. These are engineered ceramic micro particles with unique tracers that are non-replicable, and have unique physical properties for which its presence and concentration is detectable by a specially developed portable reader – "The Authenticator". The micro-particles bond to the molecular structure of the product, either directly through the manufacturing process or applied to the surface in inks or as a spray-on lacquer. When the particles are scanned by "The Authenticator" unique digital codes are generated, similar to barcode scanning. The particle is invisible to the naked eye and is suitable for a number of applications including product authentication, supply chain management, batch control and theft prevention.

LATEST PROFIT RESULT AND SHORT TERM EARNINGS OUTLOOK

The profit result for the six months ended 31 December 2010 was a setback for the company with a substantial reduction in operating profit primarily due to a marked reduction in sales in Europe and some increased expenditure attributable to various growth initiatives including the acquisition of the CSIRO's interest in DataTraceDNA. This latter item resulted in the DataDot recording a valuation gain on its shareholding which boosted pre tax profit by \$0.6 million. Revenue for the period was \$3.7 million compared with \$4.6 million for the previous corresponding period. Operating profit fell from \$1.05 million to \$215K whilst pre tax profit (including the valuation gain) was \$485K compared with \$637K previously.

Given the company's expectation of marked fall in revenues in 2011, we expect the company to report a loss for the year. The core factors contributing to this performance are a continued slump in European auto sales and major disruptions to the Japanese auto industry supply chain following the earthquake and tsunami with significant global flow-on effects. A return to profitability is expected in FY 2012 as these issues are resolved and as other growth initiatives gather momentum.

BUSINESS DRIVERS AND GROWTH PROFILE

Management detailed, at the 2010 AGM, five key drivers that would propel growth over the next few years. These drivers are:

- Aggressively grow the microdot product globally – significant opportunity to grow from the current stable and expanding base,
- Package DataDots into innovative solutions for the management of risk in financial and insurance solutions,
- Develop new products and applications using patents, trademarks and trade secrets to protect intellectual property,
- Aggressively grow DataTraceDNA technology, and
- Expand the growth of AgTechnix business (a JV targeting the agricultural seeds markets where an estimated US\$10 billion is lost in annual production due to counterfeiting).

In seeking to grow annual revenues from a current level of around \$10 million to over \$20 million by 2016, the company will be leveraging its two key technologies into a wide range of market spaces with a view to maximising its share of the value add. Currently, most sales are sourced from the automotive sector and revenue is primarily generated from the sale of microdots to distributors, who package the dots into a customer product at considerably higher value.

The first three drivers specifically relate to the microdot business, which we believe is capable of achieving annual growth of at least 15% on a sustainable basis. This will be driven by increased market penetration by existing distributors, development of new geographies and new market segments.

The final two drivers relate to the DataTraceDNA technology, which has the potential to be the company's leading source of value as the technology is commercialised and penetration is established in key target markets where there is a demonstrated need and compelling value proposition.

FINANCIAL SUMMARY

INCOME STATEMENT		
(\$'000)	Interim 2010	Interim 2011
Revenue	5,092	4,137
EBITDA	1,063	243
Depreciation	-142	-176
Finance Cost	-25	-15
Special Items	-259	434
PRE TAX PROFIT	637	486
Tax	-5	-4
NET PROFIT	632	482

BALANCE SHEET		
(\$'000)	June 2010	Dec. 2010
Current Assets		
Cash & Equivalents	1,796	5,237
Receivables	1,473	1,882
Inventories	655	852
Other	-	-
	3,924	7,971
Non Current Assets		
Investments & Other Financial Assets	143	-
Plant & Equipment	678	735
Intangibles	395	2,538
Other	-	-
	1,216	3,273
Total Assets	5,140	11,244
Current Liabilities		
Payables	1,176	1,646
Debt	52	44
Other	273	421
	1,501	2,111
Non Current Liabilities		
Debt	110	90
Provisions	4	6
Other	354	307
	468	403
Shareholders' Equity	3,171	8,730
Liabilities & Equity	5,140	11,244

CASH FLOW		
(\$'000)	Interim 2010	Interim 2011
Net Cash Flow From Operations	1,528	75
Net Cash Flow From Investing	-262	-500
Net cash Flow From Financing	-437	3,909
Net Change In Cash	829	3,484