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## How Do Catalysts Form?

We have often talked about catalyst-driven investing, specifically in our blog post on [“The art and science of investing in the next “take-out” target”](#). Another of the catalysts that can motivate a company to sell itself is prolonged stock price underperformance despite value creation. We saw this with previous portfolio holdings Cytiva Software Inc (acquired by Taleo in 2011), Sandvine Corp (acquired by PNI Canada Acquireco Corp in 2017) and Key Technology Inc (acquired by Duravant in 2018), and looking at our portfolio today, we are wondering whether such a catalyst is forming for ProntoForms Corporation (TSXV-PFM).

ProntoForms provides software solutions to help customers transform paper-based forms into digital forms. The Company has had a strong organic growth profile over the last five years at an impressive compound annual growth rate of 30%, with 90% recurring revenue. It has built up its direct sales team and added a number of large enterprise customers, several of which have additional upsell opportunities. Yet while the intrinsic value of the business has increased, the “market” price has gone nowhere for several years, in our opinion. Investors just don’t seem to be interested in a \$35 million market cap software company.

GoCanvas, a close competitor of ProntoForms, was recently acquired by a private equity firm for over US\$100 million (approximately 5x trailing revenue). This gives us a rough estimate that the private market value of ProntoForms could be \$0.75 per share, based on the same valuation multiple. ProntoForm’s stock trades at \$0.46\* (3.3x trailing revenue), a 39% discount to its potential private market value of \$0.75.

Many small cap companies fly under the radars of most analysts, making them unknown and misunderstood. Consequently, it is not uncommon to have valuation gaps between intrinsic and stock market valuations. While we have no control over when the valuation gap may close, our ongoing due diligence reassures us that the business itself has been creating value along the way. The only question remaining is if and when a catalyst is going to happen.

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\* As of Feb 19, 2019



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