

*This article is authored by MOI Global instructor Ben Terk, portfolio manager at Active Owners Fund. Ben is an instructor at [Best Ideas 2018](#), the fully online conference featuring more than one hundred expert instructors from the MOI Global membership community.*

At Active Owners Fund, we look for small cap “buy-out” quality companies that are in transition or open to a transaction, that have broken stocks, but are not broken companies.

We invest significant time and resources on due diligence to understand the industry, competitive set and near term opportunity for significant value creation. By focusing on the small cap sector that is under-covered, under-followed and for some companies, under-valued, we are always able to find opportunities where we can buy influence at a discount versus control at a premium. In the sub-billion-dollar market, there are always a whole host of companies going through different types of fundamental events that will unlock value and better reflect the true earnings power of their respective business models.

We have tracked PRGX Global (PRGX) for over five years and have spent time with previous and current PRGX management. As we all come out of private equity, we are constantly speaking with relationships there and exploring potential take private opportunities across our portfolio. We believed PRGX would make an interesting take private candidate given its cash flow potential, sticky customer base and ability to serve as a platform for further market consolidation

PRGX is the largest provider of recovery audit services to the retail industry in the world. The Company serves 75% of the top 20 global retailers, 32% of Fortune 50 companies and has a 99% customer retention rate. The Company recovers over-payments and under-deductions from a customer’s suppliers through data analytics and audit across millions of customer/supplier interactions. We began tracking the Company over five years ago when the prior CEO began his tenure. At the time, we were intrigued by the Company’s significant long-term customer relationships and its access to massive amounts of purchasing data that we thought could be monetized through incremental services and analytics. In addition, there appeared to be a large opportunity to lower costs by accelerating the offshoring of more of the recovery process to India, which was already underway.

We confirmed the scope of the cost reduction opportunity through numerous discussions with the former CEO and prior employees. Despite these near term opportunities, the former CEO had a more grandiose vision and chose to pursue a new business line focused on the healthcare sector. The Company made a couple of unsuccessful acquisitions and the former CEO was eventually pushed out. When the current CEO joined in late 2013, we began to spend time with him and re-started our diligence. We subsequently initiated a position in February, 2017. There are now two activist investors involved, one of which is on the Board and with whom we have a long term relationship.

Under the leadership of the new CEO, the Company exited the healthcare business and focused on automating and accelerating audit cycle times to differentiate itself in an increasingly commoditized business. As a result, the Company has been able to grow

organically by adding new clients and increasing customer retention. The Company has had five consecutive quarters of organic revenue growth. The Company is also beginning to show success in leveraging its six petabytes of customer data to sell incremental services to its existing customers while also forging go-to market alliances with a number of consulting firms. The Company recently completed two small acquisitions to further accelerate its adjacent services offering and develop a software-as-a-service (SaaS) business model.

The combination of the heavy technology investment in the Company's core platform and the buildout of the adjacent services business has masked the forward earnings power of the Company. If we adjust for these non-recurring items, the Company is trading for less than 7x 2017 EBITDA or approximately 50% less than its peer set. We believe the stock will rerate and liquidity will improve as the cash flow yield improve and the business starts to scale. Additionally a combination of a sticky customer base, renewed growth, a strong balance sheet, under-monetized data assets, and a shareholder-focused board will be attractive to both financial and strategic buyers.