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# IS THIS RALLY A TRAP?

*By Gordon Pape, Editor and Publisher*

Nasdaq has emerged from its bear market – at least technically. It is still well short of its all-time high, so it is still in correction territory. But the last two months have seen an impressive rebound.

The tech-dominated Nasdaq Composite closed at 10,646.10 on June 16, its lowest level since the fall of 2020. On Friday, it dropped 260 points, finishing at12,701.21. But that still represents a gain of 19.3% in a little over two months.

The S&P 500 has also exited its bear market. The Dow Jones Industrial Average and the S&P/TSX Composite never fell that far, although both were in correction mode for most of the first half. (A bear market is a decline of 20% or more from the previous high; a correction is a drop of 10%+).

*Continued on page 2...*

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| | |
|---|---|
| Is this rally a trap? | 1 |
| Has inflation peaked? | 6 |
| Gavin Graham's precious metals updates | 8 |
| Gordon Pape updates Okta Inc. | 12 |
| Ryan Irvine updates Sylogist | 13 |

Next issue Aug. 29

***Trap?—continued from page 1...***

Some investors and analysts believe the worst is behind us. Speaking about the S&P 500, CNBC quoted Jurrien Timmer of Fidelity Investments as saying: “If this rally continues much further than it has so far, on a historical basis it will be hard to conclude that this is not a new bull market.”

Widely followed Canadian economist David Rosenberg disagrees. In a recent article, he wrote that we are still in the “early chapters” of this downturn. “Bear markets only end in the mature stage of the recession when investors see the whites of the eyes of the recovery, only after the Fed has dramatically sliced rates, and not until the yield curve is steeply sloped...Playing the long game means not going long until these features appear,” he wrote.

Who’s right? We won’t know for several months. What we *do* know is that several of the most widely held technology stocks have staged strong rallies. But based on what? Their latest financials aren’t particularly encouraging. Let’s take a look.

## Alphabet Inc. NDQ: GOOGL

**HOLD**

*Originally recommended on June 16/14 (#21421) at $30.37 (split-adjusted). Closed Friday at $117.21. (All figures in US dollars.)*

**Background:** Alphabet is the umbrella company that owns Google (which includes Android, Chrome, and YouTube), Nest (home automation), Calico (anti-aging research), Fiber (high-speed Internet), Google Ventures (new company investments), Sidewalk Labs (city infrastructure), and Waymo (driverless cars). Other services include Google Maps, Google Play, and cloud computing.

**Share splits**: The stock split 2 for 1 shortly after we recommended it. If you owned 100 shares at that time, that gave you a total of 100 each of GOOG (non-voting C shares) and 100 of GOOGL (voting A shares). We track only GOOGL, as it represents the original shares acquired, but GOOG trades at about the same price.

The company implemented another split on July 15. Investors received a special dividend of 19 shares for every share owned as of the July 1 record date. All classes of shares benefited.

So, readers who bought at the time of my original recommendation now own 2,000 shares each of GOOGL and

***Continued on page 3...***

*Trap?—continued from page 2...*

GOOG. The market price adjusted accordingly.

**Performance**: GOOGL shares touched a 52-week low of $101.88 (split-adjusted) in mid-June. They closed Friday at $117.21 for a gain of 15% since that time.

**Recent developments**: Alphabet's second quarter results were respectable but didn't show the stunning gains to which we've grown accustomed in recent years. In fact, while revenues were up, profits were down, missing estimates.

The company reported revenue of $69.7 billion, an increase of 16% in constant currency terms over $61.9 billion in the same period of 2021. Google's search business was on track with revenue of $40.7 billion but YouTube ads and Google Cloud came in below projections at $7.3 billion and $6.3 billion respectively. For the first six months of the fiscal year, revenue was $137.7 billion compared to $117.2 billion in the prior year.

Second quarter earnings were $16 billion ($1.21 per diluted share), down from $18.5 billion ($1.36 per share) the year before. For the first half, earnings were $32.4 billion ($2.44 per share) compared to $36.5 billion ($2.68 per share) in 2021.

One of the reasons for the drop in income was a decline in second quarter operating margin to 28%, from 31% the year before. This was despite reduced spending on research and development and sales and marketing.

**Dividend**: The stock does not pay a dividend.

**Outlook**: After years of above-average growth, Alphabet seems to be settling into a mature stage. This implies steady but unspectacular results going forward. With a current p/e ratio of 22.12, the share price is reasonable but not cheap.

**Action now**: Hold.

## Amazon.com NDQ: AMZN

**HOLD**

*Originally recommended on Jan. 16/17 (#21703) at $40.86 (split-adjusted). Closed Friday at $138.23. (All figures in US dollars.)*

**Background**: Amazon is the largest on-line retailer in the world, but the company is also involved in many other businesses including cloud storage, video streaming, film production, voice-activated software (Alexa), and more.

**Performance**: Amazon shares bottomed out at $101.26 in mid-June. They have rallied strongly since, closing Friday at $138.23 for a gain of 36.5% in the past two months.

*Continued on page 4...*

***Trap?—continued from page 3...***

**Stock split**: On June 6, Amazon implemented a previously announced 20-1 stock split. This means each share was divided into 20 new shares and the price of the stock was adjusted accordingly. At the time of the split, the stock was trading at $2,785.

**Recent developments**: Like Alphabet, Amazon turned in an unimpressive second quarter. Sales increased a meagre 7.2%, to $121.2 billion, from $113.1 billion in 2021. For the first six months of this year, sales totaled $237.7 billion, which was 7.3% ahead of the same period last year.

Meanwhile, second quarter operating expenses jumped almost 12% to $117.9 billion. For the first half, operating expenses were $230.7 billion, up 12.5% from the prior year.

The net result was a second quarter loss of just over $2 billion (-$0.20 per diluted share). That included a pre-tax valuation loss of $3.9 billion from Amazon's common stock investment in Rivian Automotive. In 2021, the company reported a second quarter profit of $7.8 billion ($0.76 per share).

Loss for the first six months was $5.9 billion (-$0.58 per share). Amazon used to report losses almost every quarter, but they've been rare recently. The Rivian investment has been a drag so far.

**Acquisition**: On Aug. 5, the company announced it is acquiring iRobot in an all-cash deal valued at $1.7 billion. The company manufactures the Roomba vacuum cleaner and a number of other robot products that are sold world-wide.

**Dividend**: The stock does not pay a dividend.

**Outlook**: Like Alphabet, Amazon is experiencing a sharp slowdown in sales growth, while contending with higher costs on several fronts, including transportation, labour, and supplies. There is no reason to expect a return to the previous rapid growth rate any time soon. The stock has a very high trailing 12-month p/e ratio, due to the recent losses.

**Action now**: Hold.

## Apple Inc. NDQ: AAPL

**HOLD**

*Originally recommended on April 13/20 (#22015) at $66.62 (split adjusted). Closed Friday at $171.52. (All figures in US dollars.)*

**Background:** Apple is one of the most valuable companies in the world, with a market cap of about $2.8 trillion. That's almost double the size of Amazon and Alphabet combined. Apple's iPhones and iPads dominate the market and sales of its Macintosh computers are on the rise.

***Continued on page 5...***

***Trap?—continued from page 4...***

**Stock split**: In August 2020, the company implemented a 4 for 1 stock split.

**Performance**: Apple touched a low of $129.04 in June at the depth of the tech sell-off. It has rallied to $171.52, up almost 33% from its 52-week low.

**Recent developments**: The good news is that Apple reported record sales for the third quarter of fiscal 2022 (to June 25), at just under $83 billion. The bad news is that sales were up only 1.9% from the same period a year ago. For the first nine months of the fiscal year, sales were ahead 7.7% to $304.2 billion.

As with the other tech companies we've looked at, Apple experienced a decline in quarterly net income, to $19.4 billion ($1.20 per diluted share) from $21.7 billion ($1.30 per share) in the same period last year. However, for the first nine months of the fiscal year the company reported net earnings of $79.1 billion ($4.82 per share), up from $74.1 billion ($4.38 a share) last year

**Dividend**: The shares pay a quarterly dividend of $0.23 ($0.92 a year) to yield 0.5% at the current price.

**Outlook**: Apple CEO Tim Cook referred to the "challenging operating environment" the company is dealing with. He didn't provide specifics but it's not hard to guess – inflation, supply chain problems, and weak economic conditions in China. These will continue to be a problem for the rest of the year.

**Action now**: Hold.

## The Bottom Line

All three of these tech giants are displaying a similar pattern of slowing growth and a stagnant bottom line. Investors obviously felt the share prices had fallen too low and were willing to bid them up in the recent rally. But the latest financial results haven't offered much encouragement. I wouldn't sell any of these companies yet, but it's too soon to buy.

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# HAS INFLATION PEAKED?

***By Gavin Graham, Contributing Editor***

We've seen a sharp rally in equity markets. As I write, Nasdaq is up 15% in the last month and 20% from its low two months ago. The S&P 500 has gained 12% and other major markets are going along for the ride. The MSCI World Index is up over 9% in the last month, the S&P/TSX 60 is ahead 7.5%, and the FTSE 100 has gained 7.2%. Even markets with an exposure to cyclical sectors such as energy, mining, and financials have been enjoying a rebound.

The rally in equities has been matched by an equally strong recovery in bonds, at least at the long-dated end of the market. Having hit a post Great Financial Crisis high yield of 3.47% just after the news of the shocking American CPI figure of 9.1% in mid-June, the yield on the benchmark 10-year US Treasuries fell almost 100 basis points (1%) in the next few weeks. Investors became convinced that the US Federal Reserve would end its program of interest rate increases sometime in 2023. This was despite Fed Chair Jay Powell raising interest rates 0.75%, the largest increase in almost 25 years, to 2.25-2.5% and indicating that further increases were likely in September and October.

Meanwhile, the Bank of Canada raised rates by 1%, to 2.25%. It was the biggest increase since 1994. The Bank of England raised rates 0.5%. The European Central Bank also raised rates by the same amount, although this merely took them to zero, as they had been in negative territory for the previous few years.

With CPI increases approaching or above 9% in all these countries, the need for central banks to show themselves combatting inflation was paramount.

When July's US CPI number came in at 8.6%, down from June's 9.1% and flat month on month, the market evidently felt that the Fed can achieve that most difficult of tasks, a "soft landing" by reducing inflation sufficiently without causing a recession. Certainly, with unemployment at 50-year lows below 4% in the US and UK and 5% in Canada, there is room for some tightening of policy without necessarily plunging the economy into a deep recession such as occurred after the Financial Crisis in 2008-09 or the early 1990s.

But the Fed and other central banks don't have a great track record of achieving soft landings. Given how badly wrong their forecasts were on inflation being transitory last year, it's difficult to see why investors have such confidence in a benign outcome.

The best forecaster of recessions is an inverted yield curve, where short term interest rates are higher than long term rates. This is usually taken as the relationship between 2-year and 10-year

***Continued on page 7...***

*Inflation—continued from page 6...*

bonds. The curve has inverted steeply in the last couple of months, meaning that investors can get a higher yield in 2-year bonds with little exposure to rising interest rates as duration is very short.

Why then would they be so optimistic about the outlook for longer dated bonds?

Their thinking seems to be guided by the experience of the Fed always backing down and starting to cut rates whenever the economy starts to slow and the stock market drops. That happened in the fourth quarter of 2018 and the Taper Tantrum in 2013 when Fed Chairs Powell and Bernanke backed off from raising interest rates and Quantitative Tightening (QT) by selling government bonds.

This time, however, inflation is so high that central banks can't realistically back off from raising rates if they wish to retain credibility. With inflation at 8.5-9%, even rates at 3.5-4% would mean real interest rates would be negative 4%.

Even if inflation is flat every month from now until year-end, as was the case last month, the CPI would still be 6%. With over one-third of CPI made up of property, which works with a long time lag, inflation will still be well above 4% this time next year without any other unpleasant surprises like the invasion of Ukraine.

Investors should therefore keep their bond exposure short but look at sectors such as financials. Those stocks benefit from higher interest rates as their Net Interest Margin widens and their long-term liabilities are reduced as rising rates shrink the cost. If there is a recession, these factors should outweigh higher loan losses, especially as unemployment levels, the principal cause of bad debts, are still at very low levels.

Another approach is to look at those sectors which are beneficiaries of rising inflation, such as commodity producers, especially given the lack of new supply and supply chain issues, which will likely keep prices higher than expected.

Lastly, it's a good time to revisit precious metals, which are both inflation beneficiaries and not highly correlated with either equities or bonds. This means they reduce the overall volatility of a portfolio. Gold and silver miners are selling at extremely cheap prices, both compared to the metals themselves and to historical ratios.

Let's look at the precious metals' miners, which have been lagging the metals themselves despite turning in excellent numbers in most cases.

***Gavin Graham has had a long and successful career in money management and is a specialist in international securities. He held senior positions in financial organizations in London, Hong Kong, and Toronto. He is a Trustee of the Royal Medical Foundation Investment Committee and Chief Strategy Officer SmartBe Investments (www.smartbeinvestments.com). He divides his time between Canada and the UK.***

# GAVIN GRAHAM'S UPDATES

**Recommendations are colour-coded:**
**Green indicates Buy**
**Yellow indicates Hold**
**Red indicates Sell**

## Agnico Eagle Mines TSX, NYSE: AEM

**BUY**

*Originally recommended on Dec. 3/12 (#21242) at C$55.39, US$55.80. Closed Friday at C$56.82, US$43.72.*

**Background**: Agnico is a senior Canadian gold mining company and the third largest gold miner in the world in terms of market capitalization. Following its merger with Kirkland Lake Mining in the first quarter of 2022, the company has eleven mines in politically stable jurisdictions such as Canada, Finland, Australia, and Mexico. It also has exploration and development operations in these countries. Between 2017 and 2021, revenues grew 70% to $3.8 billion (like most gold miners, Agnico reports in US dollars). Operating income doubled to just over $1 billion, while net income rose 120% to $543 million ($2.22 per share) as Agnico brought two new mines (Amaruq and Meliadine) in Nunavut on line, on time and under budget. In 2021 Agnico produced a record total of 2.03 million ounces (oz.) of gold at an All in Sustaining Cost (AISC) of $1,038 per oz.

**Performance**: After peaking at an all-time high of $117.35 in August 2020 as gold briefly exceeded $2,000 per oz., Agnico's share price has effectively halved despite its excellent operational performance. Today the shares are no higher than five years ago when gold was $1,500 an oz., or since being recommended a decade ago.

**Recent developments**: In the first six months of 2022, Agnico produced over 1.5 million oz. at an AISC of $1,026 per oz. This produced net income of $385 million ($0.92 per share). The company reiterated its forecast of production for fiscal 2022 of 3.2 to 3.4 million oz. at an AISC of between $1,000-$1,050, with cost inflation making the higher end of the range more likely. Synergies from the Kirkland Lake merger are now estimated to be $225 million over the next five years, up from an initial estimate of $140 million. A new technical evaluation at Kirkland's Detour Lake Mine has increased its reserves by 38% to 20.4 million oz. and extended its life by ten years to 2052. New CEO Ammar Al-Joundi noted the company set a new quarterly production record of 858,100 oz.

**Dividend**: Agnico increased its quarterly dividend in March by 14.3%. The stock now

***Continued on page 9...***

# Franco-Nevada TSX, NYSE: FNV

**BUY**

*Originally recommended on July 26/10 (#20127) at C$31.59, US$30.45. Closed Friday at C$167.01, US$128.52.*

**Background**: Franco-Nevada is the largest and longest established of the precious metals and oil and gas royalties and streaming companies, with a market capitalization of $32 billion. Its portfolio of royalties and streams is diversified geographically and by metals and energy. It is a low-risk way to play precious metals and other commodities as its royalties are linked to revenues with no exposure to capital expenditures and rising costs.

**Performance**: Having risen over five times since being recommended, Franco-Nevada is by far the best performing major mining stock. That said, it has fallen almost 20% from a short-term high of $210 a share after gold went over $2,000 an oz. after the invasion of Ukraine.

**Recent developments**: Revenue doubled to $1.3 billion in 2021 and net income rose almost four times to $734 million ($3.83 per share). This was due largely to the successful commissioning of the enormous Cobre Panama copper mine. Note that the company reports in US dollars. Progress continued in the first half of 2022. Net income rose 12.5% to $378 million ($1.98 per share) although revenues were essentially unchanged. The company reported record production of 369,666 gold equivalent ounces (GEO), equal to revenue of $691.1 million. Franco-Nevada bought a 0.458% net streaming royalty on JX Mining's copper/molybdenum Caserones mine in Chile for $37.8 million and after quarter-end announced it had arranged a $352.5 million package for G Mining Ventures Tocantinzinho gold project in Para, Brazil.

**Dividend**: Franco-Nevada announced a 6.7% increase in its quarterly dividend to US$0.32, equivalent to a yield of 1%.

**Action now**: Franco Nevada continues to be the most diversified and lowest risk way to gain exposure to precious metals and other commodities through its royalty structure. Buy now.

***Agnico Eagle Mines—continued from page 8...***

pays US$0.40 per share (US$1.60 per year), giving it a yield equivalent to 3.7%.

**Outlook**: The company forecasts production increasing to 2.15 million oz. by 2024.

**Action now**: The Kirkland Lake deal has added 70% to Agnico's gold production, and the new evaluation for Detour Lake indicates this mine alone could produce 1 million oz. annually for the next couple of decades. That's equivalent to half of Agnico's total production in 2020. The stock is selling no higher than it was five years ago, although gold is up by one-third and the company's production is substantially higher. Agnico remains the most attractive major gold mine and is a Buy.

# Equinox Gold TSX, NYSE: EQX

**BUY**

*Originally recommended on March 14/22 (#22211) at C$10.08, US$7.92. Closed Friday at C$4.89, US$3.80.*

**Background**: Equinox, of which mining entrepreneur Ross Beatty owns 8%, describes itself as a growth focused gold producer operating entirely in the Americas. It has two mines in the US, one in Mexico, and four in Brazil. The company produced 593,000 oz. of gold in 2021 and has reserves of 16 million oz. It has a 60% interest in the Greenstone Mine near Geraldton, Ontario, which will be one of Canada's largest mines with 5.5 million oz. in reserves when it comes on-line in 2024. It was 35% complete as of June 30.

**Performance**: The share price has halved since being recommended on the back of operational issues reducing gold output. With $160 million in unrestricted cash as of June 30, and with the new Santa Luz mine coming on stream in the third quarter, the selloff seems overdone. The stock is only slightly higher than when it went public in 2018.

**Recent developments**: In the six months to the end of June, revenue was essentially flat at $448 million on 238,800 oz. sold (the company reports in US dollars). Adjusted Earnings Before Interest Tax Depreciation & Amortization (EBITDA) was down to $67.2 million from $112.8 million. The company posted an adjusted net loss of $72 million (-$0.24 per share).

High rainfall impacted production at Aurizona in Brazil, which led to mining of lower grade stockpiles and RDM in Brazil suspended operations in May due to a delayed permit for the tailings facility, which has now been received. These reductions led to Equinox reducing its production forecasts for 2022 to 550,000-615,000 oz. at an AISC of $1,470-$1,530 per oz. meaning production will essentially be unchanged this year.

Equinox sold its Mercedes mine in Mexico to Bear Creek Mining in April for $75 million with another $25 million due in October. Equinox also received a 2% royalty and 24.73 million shares in Bear Creek. It also received $40 million from its investment in Solaris and set up Sandbox Royalties with Sandstorm Gold Royalties, receiving a 34.4% interest.

**Dividend**: Equinox doesn't pay dividends as it is still developing major projects such as Santa Luz and Greenstone.

**Action now**: After its sharp fall, Equinox is very attractively valued, assuming it can achieve the 300,000 oz. increase in production from Aurizona, Los Filos, and Castle Mountain, and with Santa Luz starting commercial production this quarter. Buy now.

# Pan American Silver TSX, NDQ: PAAS

*Originally recommended on June 17/19 (#21923) at C$15.58, US$11.66. Closed Friday at C$20.92, US$16.13.*

**BUY**

**Background:** Pan American is the second largest producing silver miner and one of the two largest silver producers by market capitalization. It operates silver and gold mines in mining friendly jurisdictions such as Mexico, Peru, Canada, Argentina, and Bolivia. Its acquisition of Tahoe Resources in 2018 gave it 500,000 oz. of gold production annually, primarily from the Dolores mine. The Escobal silver mine in Guatemala is nonproducing at this time but produced as much silver as all of Pan American's existing mines in its last year of operation in 2018.

**Performance**: Pan American announced disappointing results for the second quarter on production issues at Dolores. That led to a write down of the asset and saw the share price immediately drop 20% from $28. The stock is now 40% below the high of $38.51 reached as recently as April after the invasion of Ukraine.

**Recent developments**: As noted, operational issues at the Dolores gold mine led to an 11% reduction in revenues for the second quarter (to June 30) to $340.5 million (the company reports in US dollars). Production was 4.537 million oz. of silver at an AISC of $17.30 and 128.3 thousand oz. of gold at an AISC of $2,051 an oz. The result was an operational loss of $6.5 million against a profit of $48.6 million in 2021 and a loss of $173.8 million after the write down of Dolores assets.

As a result, production guidance for 2022 has been adjusted down to 19-20.5 million oz. of silver at an AISC of $14.50-16 and 550-605,000 oz. of gold at an AISC of $1,450-1,550, with expectations towards the lower end of the range.

**Dividend**: Pan American raised its dividend by 20% to US$0.12 per quarter ($0.44 per year), equivalent to a yield of 2.7%.

**Action now**: While still up 50% from its original recommendation, Pan American's disappointing operational performance has led to a sharp reduction in its production forecast for this year. However, operations at its flagship silver asset, La Colorada, have improved significantly according to its CEO Michael Steinmann, with production of 1.7 million oz. in the second quarter.

Gold production should pick up in the second half from the sequencing of production at La Arena and Shahuindo. The Guatemala government's decision on reopening the Escobal mine is expected in the first quarter of 2023, which would more than double Pan American's production if it happens. Buy now.

# GORDON PAPE'S UPDATES

**Recommendations are colour-coded:**
**Green indicates Buy**
**Yellow indicates Hold**
**Red indicates Sell**

## Okta Inc. NDQ: OKTA

**HOLD**

*Originally recommended on Oct. 18/21 (#21137) at $255.02. Closed Friday at $96.21. (All figures in US dollars.)*

**Background:** Okta is based in San Francisco. The company describes itself as "the leading independent identity provider". Its "Identity Cloud" enables organizations to operate securely in cyberspace, including companies like JetBlue, Nordstrom, Siemens, Slack, Takeda, Teach for America, and Twilio.

**Performance:** The stock hit a 52-week low of $77.01 in mid-May, joining the general sell-off in technology securities. It has since regained about 25%.

**Recent developments**: The company recently reported results for the first quarter of fiscal 2023 (to April 30). Total revenue was $415 million, an increase of 65% year-over-year. Subscription revenue was $398 million, an increase of 66% year-over-year.

That was encouraging, but now the bad news. Based on GAAP principles, Okta recorded a net loss of $243 million (-$1.56 per share), compared to -$109 million (-$0.83 a share) in the first quarter of fiscal 2022.

Net cash provided by operations was $19 million, or 5% of total revenue, compared to $56 million, or 22% of total revenue, in the same period of fiscal 2022. Free cash flow was $11 million, or 3% of total revenue, compared to $53 million, or 21% of total revenue, the year before.

The company didn't offer any explanation for the large deficit increase, but a look at the operating statements shows huge increases in expenses across the board. Research and development costs were up 135% year-over-year, to $161.7 million while sales and marketing expenses increased 72% to $252.5 million.

Even with rapidly rising costs, the company is not going to run out of money any time soon. Okta had cash and equivalents of $2.49 billion as of April 30.

***Continued on page 14...***

# RYAN IRVINE'S UPDATES

**Recommendations are colour-coded:**
**Green indicates Buy**
**Yellow indicates Hold**
**Red indicates Sell**

## Sylogist Ltd. TSX-V: SYZ, OTC: SYZLF

**HOLD**

*Originally recommended Sept. 18/17 (#21734) at C$8.83, US$6.90. Closed Friday at C$7.12, US$5.71.*

**Background:** Headquartered in Calgary, Sylogist is a public sector software as a service company that provides comprehensive enterprise resource planning, constituent relationship management, fundraising, education administration, and payments solutions that allow its customers to carry out their missions. Sylogist serves nearly 2,000 customers globally, including all levels of government, non-profit and non-governmental organizations, educational institutions, and public compliance-driven and funded companies.

**Financial highlights**: Second quarter revenues increased 48% to $13.1 million from $8.9 million in in the same period of 2021. Recurring revenues from subscriptions and maintenance rose 24% to $8.7 million from $7 million last year.

Gross profit was up 35% to $8.4 million, compared to $6.3 million, while gross profit margin dropped to 64% from 71% a year ago. Margins declined as anticipated, mainly due to the Omicron related project delays, a recent acquisition, and strategic customer discounts included in a retention program with legacy school and municipal customer communities in North Carolina and Western Canada.

Adjusted EBITDA was lower at $3.9 million ($0.16 per share) compared to $4.4 million ($0.18 per share) in 2021.

After more than a year of headwinds from COVID-19, and again from the Omicron variant surge, the company turned a corner in the back half of the second quarter and showed material organic growth. The organic revenue growth rate rose significantly in the quarter, reaching neutral after a number of negative quarters. Projects ramped up and nearly $3 million in additional bookings were signed. The company maintained strong profitability, with a 30% EBITDA margin in the quarter.

***Continued on page 14...***

***Sylogist—continued from page 13...***

**Conclusion:** Sylogist continues to be in an execution phase, striving to reignite its organic growth. During the second quarter the company posted its first positive quarter of organic growth since the current CEO, Bill Wood, joined Sylogist back in November 2020.

After adjusting for the strategic one-time customer discounts that management does not expect to experience in future quarters, organic growth was approximately 4% year-over-year. Growth also appeared to accelerate in the back half of the second quarter following the Omicron variant (which caused project delays), leading to 8% sequential growth from February to March, driven by new deals and project deliveries.

Given this momentum, management remains confident that the business will achieve its high single-digit organic growth target for fiscal 2022. The company appears to be moving in the right direction, but it must demonstrate that it can maintain the acceleration in growth throughout the second half of the year if it is to achieve its organic growth target.

On a valuation basis, Sylogist trades with an EV to trailing EBITDA ratio of 12 and a price to cash flow ratio of 12.75. The multiples could be attractive if management executes on its organic growth targets, but this has yet to occur.

**Action now**: Near-term, we rank Sylogist as a Hold and need to see better organic growth as well as execution in terms of accretive M&A activity to grow per share cash flow once again. If we do not see this over the coming 12 months, we will exit the stock.

***Okta—continued from page 12...***

**Dividend**: As you would expect from these numbers, the company does not pay a dividend.

**Outlook**: The company is forecasting total revenue of $1.805-1.815 billion for the 2023 fiscal year, representing a growth rate of 39% to 40% year-over-year. The net loss per share on a non-GAAP basis will be between $1.11 and $1.14.

**Action now**: The stock has taken a big hit, but the rebound is impressive. The company is well financed and is aggressively working to build its client base. If you have a position, Hold, but I do not advise new share purchases at this time.