



## Why Farmers Edge Is a Broken IPO

### Description

Generally, a company that goes public on the equity markets raises capital via an initial public offer to fund expansion plans, making the stock attractive to growth investors. Canada-based **Farmers Edge** ([TSX:FDGE](#)) [completed an IPO](#) on March 3 this year and raised \$144.2 million in the process. Its stock was priced at \$17 per share but is currently trading at just \$4.72, losing close to 80% in market value in the last six months.

So, why has Farmers Edge stock grossly underperformed since its IPO, and can it stage a comeback in the last quarter of 2021?

### An overview of Farmers Edge

A company that develops digital agriculture solutions in North America, Brazil, Australia, and Eastern Europe, Farmers Edge is currently valued at a market cap of \$197 million. Its FarmCommand is a cloud-based analytics software platform that provides real-time monitoring alerts, predictive models as well as outcome-based data recommendations. These platform solutions are sold through a network of channel partners that consist of crop input manufacturers and retailers as well as seed and crop protection companies, equipment manufacturers, insurance companies, grain companies, and food manufacturers.

The company enables the digitization of farmers while providing it with the opportunity to expand its portfolio of solutions. Customers who work with Farmers Edge can improve yields and profitability on farming operations. Further, Farmers Edge solutions are sold in five subscription tiers and are priced on an annual per-acre basis. Most tiers are backed by four-year contracts with the option to cancel subscriptions at the end of the first year.

### Revenue fell significantly in Q2 of 2021

Farmers Edge has managed to increase sales from \$14.36 million in 2017 to \$45.88 million in 2020. However, its revenue in the second quarter of 2021 fell to \$6.15 million compared to \$9 million in the

year-ago period. While the EBITDA loss narrowed from \$13.5 million to \$9 million in this period, investors are expectedly concerned over the steep decline in the company's top line.

Farmers Edge explained that fertility sales related to the last fertility season were fully recognized by the end of Q1 of 2021, and \$1.5 million of commercial contract subsidies in Q2 of last year did not repeat in the June quarter of 2021, resulting in significant revenue erosion.

Annual recurring revenue for Farmers Edge in Q2 stood at \$62.4 million compared to \$43.2 million in the year-ago period. This represented an increase of \$19.2 million, or a growth of 45% year over year.

## What's next for Farmers Edge investors?

Analysts tracking Farmers Edge stock [expect sales to rise by just](#) 1.6% year over year in 2021. However, revenue growth is forecast to accelerate by 51% to \$70.28 million in 2022. This will allow the company to narrow its loss per share from \$8.01 in 2020 to \$1.1 in 2022.

Farmers Edge stock is currently valued at a forward price-to-sales multiple of 4.2, which is steep for a company expected to barely move the needle in terms of sales this year. But Bay Street estimates the stock to gain 51% in market value in the next 12 months.

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