

Park City Group (PCYG) Summary

Supply chain management for the grocery industry

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Key Takeaways

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- **Market Capitalization:** \$187.4 million
- **Founded by co-founder of Mrs. Fields Cookies.** Randy Fields also founded Captiva Software. Created PCYG software to solve problems he found as a supplier to grocery stores.
- **Insider ownership:** Approx. 40%
- **Acquired ReposiTrak – a company involved in food safety compliance.** Managers spoke most about this part of the business and of the regulatory tailwind it will enjoy over the next few years.

Overview

Company is set up to provide SAAS products to increase the visibility of supply chain issues. The original product focused on inventory management to reduce “out-of-stocks”, improve cash conversion cycle by making working capital more efficient, and minimizing waste. The company has some very experienced people in management and on the board and has some very influential clients.

Basic premise behind the company is that Big Data can offer greater insights into supply chain, and thus can make grocery operators more efficient. The company uses a consultative approach to selling – offering to load the company’s data into their system and show the prospective client’s management the results. Strategy is to move into client relationships slowly – getting a foot in the door at first, and once proven to be helpful, work on selling a wider range of products. Largest client is Target (TGT). The system can be made more helpful if suppliers are also using the system, so there is a strong network effect. If Target’s suppliers are on PCYG’s system, Target’s decision-making will improve, so suppliers will be incentivized (or mandated) to use the system.

Fields mentioned that Kroger (KR) is a world-class supply-chain manager, but was less complementary about Wal-Mart (WMT).

ReposiTrak is a subsidiary that maintains records about food safety compliance. FDA is claimed to be on the verge of mandating a new rule called FSMA – “the Sarbanes-Oxley” of the grocery business. Top managers are on the hook for product safety and records must be kept of all inputs. PCYG claims that its ReposiTrak is uniquely positioned to meet this requirement through a “Compliance Management System” and a “Track & Trace System”. Company is selling subscriptions to this product very cheaply to try to become the industry standard. Endorsements from two industry groups: FMI and ROFDA. Fields thinks grocery selection will become more homogenized due to regulatory pressure – ties into KR thesis.

Long-run strategy is to combine food safety application with supply chain applications on a common platform and cross-sell clients on an integrated solution.

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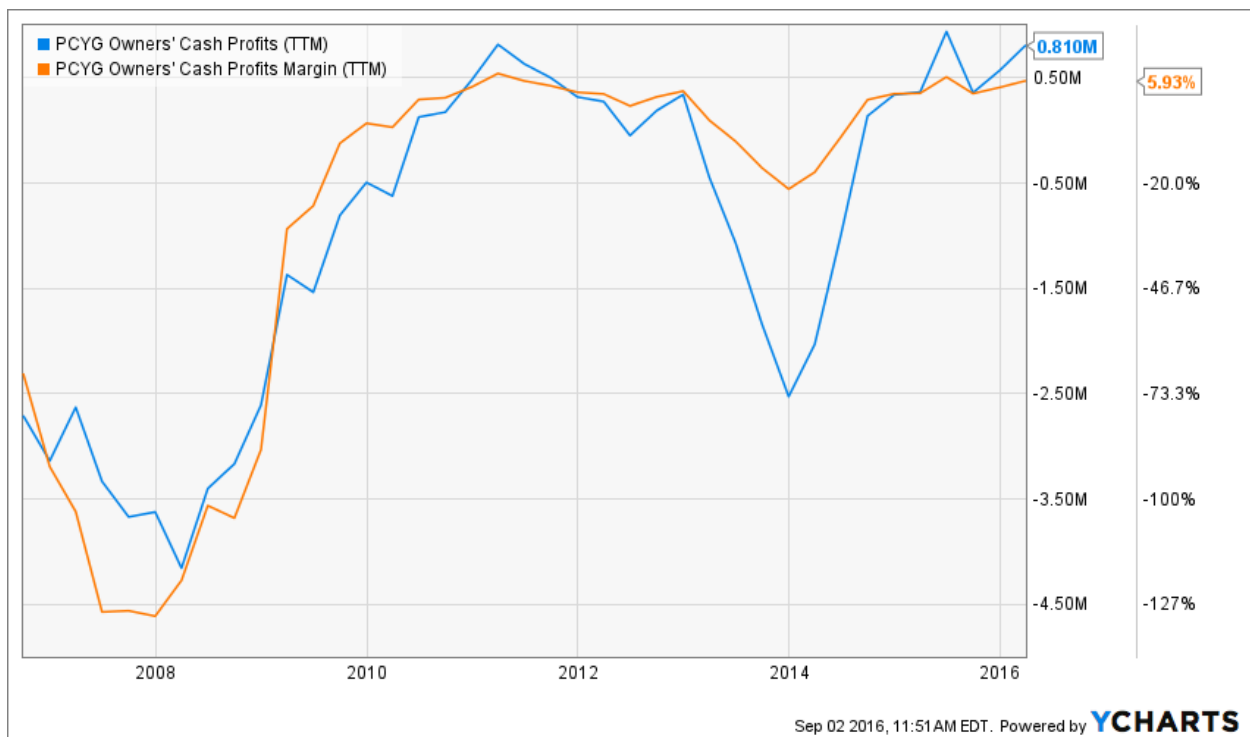
Value Drivers

Revenues

Fields commented that if a customer the size of Target were to use the full suite of PCYG products, the total opportunity would be worth in the \$50 million range. Note that present TTM Revenues are around \$14 million.



Profits



Market

Price and PS Ratio

PS Ratio looks high, but a \$50 million contract or two would drive it down very quickly...



Price and PS Ratio

Option Market is illiquid and strictly short-tenor only. No LEAPS available and a very wide bid-ask spread. ITM options are ridiculously priced.

PCYG												PCYG												
CALL												PUT												
Last	Change	Bid	Ask	DivAmt	DivDate	Volume	Impl. ...	Impl.	Ask Vol.	Delta	Days	Description	Last	Change	Bid	Ask	DivAmt	DivDate	Volume	Impl. ...	Impl.	Delta	Days	
SEP 16 '16																								
c7.30	7.00	7.90					N/A	689.612%	1.000	14	2.5		c0.00		0.40					640.8...	0.000		14	
c4.80	4.50	5.40					N/A	372.224%	1.000	14	5		c0.00		0.40					348.2...	0.000		14	
c2.30	1.80	2.80					N/A	180.331%	1.000	14	7.5		c0.00		0.20					140.6...	0.000		14	
c0.20	0.05	0.35				10.77...		49.167%	0.459	14	10		c0.40	0.20	0.60				19.58...	70.34...	-0.541	14		
c0.00		0.40						147.794%	0.011	14	12.5		c2.70	2.25	3.40				N/A	207.1...	-0.990	14		
c0.00		0.40						205.528%	0.000	14	15		c5.20	4.70	5.90				N/A	270.3...	-1.000	14		
c0.00		0.40						248.461%	0.000	14	17.5		c7.70	7.10	8.40				N/A	317.3...	-1.000	14		
OCT 21 '16																								
c7.30	6.70	7.90					N/A	414.229%	1.000	49	2.5		c0.00		0.25					295.7...	0.000		49	
c4.80	4.20	5.40					N/A	226.371%	1.000	49	5		c0.00		0.40					184.4...	0.000		49	
c2.30	1.80	2.80					N/A	113.226%	0.976	49	7.5		c0.00		0.20					71.17...	-0.024		49	
c0.45	0.30	0.55				29.92...		47.875%	0.503	49	10		c0.70	0.50	0.90				19.82...	49.04...	-0.497	49		
c0.05		0.20						66.172%	0.125	49	12.5		c2.75	2.35	3.30				N/A	89.60...	-0.876	49		
c0.00		0.40						116.129%	0.024	49	15		c5.25	4.70	6.00				N/A	139.1...	-0.979	49		
c0.00		0.25						122.120%	0.003	49	17.5		c7.75	7.20	8.50				N/A	163.6...	-1.000	49		
DEC 16 '16																								
c7.30	6.70	7.90					N/A	327.937%	1.000	105	2.5		c0.00		0.30					209.7...	0.000		105	
c4.80	4.20	5.40					N/A	179.204%	1.000	105	5		c0.00		0.20					95.19...	0.000		105	
c2.40	2.00	2.70					N/A	85.974%	0.920	105	7.5		c0.20	0.05	0.30				27.12...	49.88...	-0.080	105		
c0.70	0.50	0.90				38.27...		59.052%	0.532	105	10		c1.10	0.85	1.20				N/A	32.59...	-0.468	105		
c0.15		0.25						55.271%	0.250	105	12.5		c3.05	2.70	3.30				N/A	N/A	-0.752	105		
c0.00		0.20						70.165%	0.102	105	15		c5.40	4.80	6.30				N/A	89.01...	-0.901	105		
c0.00		0.40						102.102%	0.036	105	17.5		c7.85	7.20	8.80				N/A	105.5...	-0.968	105		
MAR 17 '17																								
c7.30	6.70	7.90					N/A	263.002%	1.000	196	2.5		c0.00		0.45					173.1...	0.000		196	
c4.80	4.20	5.40					N/A	144.179%	0.994	196	5		c0.00		0.20					66.62...	-0.006		196	
c2.30	2.20	2.75					N/A	73.486%	0.866	196	7.5		c0.45	0.25	0.55				29.17...	44.16...	-0.135	196		
c0.80	0.85	1.20				46.30...		59.985%	0.560	196	10		c1.70	1.25	1.70				N/A	33.17...	-0.441	196		
c0.20	0.15	0.45				37.93...		54.400%	0.353	196	12.5		c3.60	3.00	3.60				N/A	N/A	-0.649	196		
c0.05		0.20						55.013%	0.204	196	15		c5.95	5.30	6.00				N/A	N/A	-0.800	196		
c0.00		0.20						65.588%	0.112	196	17.5		c8.40	7.20	9.00				N/A	68.39...	-0.894	196		

Next Steps

- Regulatory angle and the people involved makes this an interesting story, so probably worth a closer look.
- Need to check fall off in profitability in 2014.
- Need to check insider ownership.
- Fields claimed that shares were not being issued for cash, but I recall seeing that clearly laid out in the financials – must check that and ask.

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