

Dropsuite Ltd

Software and Services

20 April 2022

Rating
BUY
unchanged

Price Target
A\$0.30
unchanged

DSE-ASX

Price
A\$0.23

Market Data

52-Week Range (A\$) :	0.16 - 0.29
Market Cap (A\$M) :	156.2
Shares Out. (M) :	679.3
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	135
Cash (A\$M) :	21.6
Long-Term Debt (A\$) :	0.0

FYE Dec	2021E	2022E	2023E	2024E
Sales (A\$M)	11.7	18.2↑	24.6↑	30.4↑
Previous	-	17.6	22.9	28.3
Gross Profit (A\$M)	7.5	11.8	15.8	19.6
EBITDA (A\$M)	0.4	1.3↑	1.5↑	2.0↓
Previous	-	1.2	1.0	2.4
EBIT (A\$M)	0.4	1.3↑	1.5↑	2.0↓
Previous	-	1.2	1.0	2.4
Net Income Adj (A\$M)	0.4	1.3↑	1.5↑	2.0↓
Previous	-	1.2	1.0	2.4
Net Debt (Cash) (A\$M)	(22)	(23)	(24)	(26)
EV/Sales (x)	11.5	7.3	5.4	4.3



Priced as of close of business 20 April 2022

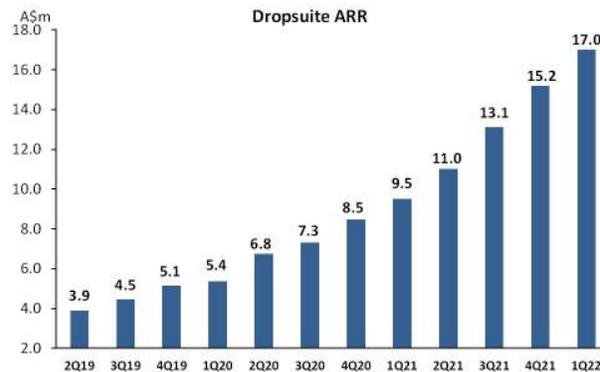
Dropsuite is a global cloud software platform founded in 2012 that provides cloud-based email and website backup, archiving and recovery solutions.

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1Q22 ARR growth of +78%; momentum continued into CY22

Canaccord Genuity will be conducting a roadshow for DSE management on 26/27 April, please contact your sales representative to arrange a meeting.

- DSE provides cloud-based email and website backup, archiving and recovery solutions to SMB-orientated Managed Service Providers (outsourced IT departments). The company reported another record quarterly result with its **1Q22 ARR increasing A\$2.3m to A\$17m (CGe \$16.6m) on a constant currency basis (\$1.8m on a floating basis). This represents +11% qoq (+16% cc) and +78% vs 1Q21 (+71% cc)**, securing it as one of the fastest-growing SaaS stocks on the ASX.
- 1Q22 ARR growth was underpinned by +55% growth in paying users (+81k to 830k [record qtr]; +12% qoq) and +16% ARPU growth (\$1.95/user/month, +2% qoq [cc]). ARR increase of \$2.3m was a record for the business, demonstrating maintained momentum in CY22 (ARR inc. on cc basis: 1Q22: \$2.3m; 4Q21: \$1.7m; 3Q21: \$1.6m; 2Q21: \$1.5m; 1Q21: \$1.3m).
- User growth continues to be driven by both new MSP partners (>200 new transacting MSP partners: 12 direct/197 indirect) and existing partners. Channel churn remains low at ~3%, reflecting the sticky nature of DSE product once adopted and a best-in-class NRR ratio from its partner base.
- Recent investments in storage capacity resulted in **gross profit margins** increasing slightly to 63% in 1Q22 (4Q21 62%) with management expecting "further improvements throughout 2022". Given there is limited/no S&M spend (as it uses channel partners), gross profit margin approximates incremental EBIT margin prior to growth opex (i.e. R&D). DSE is run-rating a >A\$9m ARR p.a. increase (\$2.3m/qrtr) that equates to ~\$6m incremental EBIT to reinvest (FY21 opex just \$7m).
- The company reiterated its FCF positive mantra for FY22E, with a modest 1Q22 FCF of -\$0.3m (pre acq. DD). The company maintains a strong balance sheet of \$21m cash to support accelerated growth including potential M&A. New executive hires (CTO, HRO, Support Manager) are indicative of an increase in investment.
- In our view, corporate activity in the industry provides valuation support, with DSE **key competitor Datto (MSP-NYSE) acquired for 8.6x FY22 revenue (+17% revg)**. On its current ARR trajectory (\$2.3m/qrtr inc.), DSE will trade on <4x in FY23 (+40% ARRg). While the volatility in tech stocks remains topical, we believe investors will inevitably return to high growth businesses as multiples can't compress forever (DSE FY23E EV/ARR <5x). We retain our conviction BUY recommendation and our \$0.30 price target is unchanged.



Source: Company reports

Canaccord Genuity is the global capital markets group of Canaccord Genuity Group Inc. (CF : TSX)

The recommendations and opinions expressed in this research report accurately reflect the research analyst's personal, independent and objective views about any and all the companies and securities that are the subject of this report discussed herein.

For important information, please see the Important Disclosures beginning on page 5 of this document.

Figure 1:DSE Financial summary

						Share Price \$ 0.23 Market Cap \$ 156.2					
Dropsuite (DSE)											
Profit & Loss (\$m)	2020A	2021A	2022F	2023F	2024F	Valuation ratios	2020A	2021A	2022F	2023F	2024F
ARR	8.5	15.2	22.2	28.2	34.2	EPS (cps)	-0.4	0.0	0.2	0.1	0.1
Sales Revenue	7.1	11.7	18.2	24.6	30.4	Enterprise Value (\$m)	154	135	133	132	130
COGS	-2.5	-4.2	-6.5	-8.7	-10.8	EV/ARR	18.1	8.9	6.0	4.7	3.8
Gross Profit	4.6	7.5	11.8	15.8	19.6	EV/Revenue	21.6	11.5	7.3	5.4	4.3
Opex	-6.3	-7.2	-10.4	-14.3	-17.7	EV/Gross Profit	33.1	17.8	11.3	8.3	6.6
EBITDA	-1.7	0.4	1.3	1.5	2.0	EV/GPAPA (gp after S&M)	33.1	17.8	11.3	8.3	6.6
D & A	-0.5	0.0	0.0	0.0	0.0	EV / EBITDA (x)	nmf	nmf	nmf	nmf	nmf
EBIT	-2.2	0.4	1.3	1.5	2.0	P/E (x)	nmf	nmf	nmf	nmf	nmf
Net Interest Expense	0.0	0.0	0.0	0.0	0.0	DPS (cps)	0.0	0.0	0.0	0.0	0.0
NPBT	-2.1	0.4	1.3	1.5	2.0	Payout ratio (%)	0%	0%	0%	0%	0%
Tax expense	0.0	0.0	0.0	0.0	0.0						
NPAT (Normalised)	-2.1	0.4	1.3	1.5	2.0	Dupont Analysis	2020A	2021A	2022F	2023F	2024F
Significant items	0.0	-0.4	0.0	0.0	0.0	Net Profit Margin	-30.1%	-0.3%	7.4%	6.3%	6.4%
NPAT (Reported)	-2.1	0.0	1.3	1.5	2.0	Asset Turnover	1.7	0.5	0.7	0.9	1.1
						ROA (%)	-50.0%	-0.1%	5.3%	5.8%	6.8%
Gross Profit Margin (%)	65.4%	64.5%	64.5%	64.5%	64.5%	Financial Leverage	1.5	1.1	1.1	1.1	1.1
EBITDA Margin (%)	-23.3%	3.3%	7.4%	6.3%	6.4%	ROE (%)	-76.9%	-0.1%	5.8%	6.3%	7.4%
EBIT Margin (%)	-30.3%	3.0%	7.4%	6.3%	6.4%						
NPAT Margin (%)	-30.1%	-0.3%	7.4%	6.3%	6.4%	Balance Sheet ratios	2020A	2021A	2022F	2023F	2024F
						Net Debt (cash)	-2.5	-21.6	-22.9	-24.4	-26.3
Cash Flow (\$m)	2020A	2021A	2022F	2023F	2024F	NTA per share (\$)	0.0	0.0	0.0	0.0	0.0
Operating EBITDA	-1.7	0.4	1.3	1.5	2.0	Price / NTA (x)	45.6	6.5	6.8	6.3	5.9
- Interest & Tax Paid	0.0	0.0	0.0	0.0	0.0	Shares on issue (m)	554.2	679.3	679.3	679.3	679.3
+/- change in Work. Cap.	-0.2	-0.1	0.0	0.0	0.0	EFPOWA (m)	551.7	616.7	679.3	679.3	679.3
- other	0.0	0.0	0.0	0.0	0.0						
Operating Cashflow	-1.8	0.3	1.3	1.5	2.0	Assumptions	2020A	2021A	2022F	2023F	2024F
- Other Capex	0.0	-0.1	-0.1	-0.1	-0.1	Revenue growth	50.5%	64.7%	55.9%	34.8%	23.8%
- Intangibles/other	0.0	0.0	0.0	0.0	0.0	Gross profit margin	65.4%	64.5%	64.5%	64.5%	64.5%
- Acquisitions	0.0	0.0	0.0	0.0	0.0	Opex growth	17.1%	13.6%	45.5%	43.8%	32.3%
Free Cashflow	-1.8	0.2	1.3	1.5	1.9						
- Ord Dividends	0.0	0.0	0.0	0.0	0.0	Users ('000)	431.0	649.0	911.2	1091.0	1247.2
- Equity /other	2.9	18.9	0.0	0.0	0.0	MSP (#)	318	409	509	609	709
Net Cashflow	1.1	19.1	1.3	1.5	1.9	ARPU (A\$)	1.6	2.0	2.0	2.2	2.3
Cash at beginning of period	1.4	2.4	21.6	22.9	24.4	ARR (A\$m)	8.5	15.2	22.2	28.2	34.2
+/- borrowings / other	0.0	0.0	0.0	0.0	0.0						
Cash at end of period	2.5	21.5	22.9	24.4	26.3	Interim Analysis	1H20A	2H20A	1H21A	2H21A	1H22E
						Revenues	3.2	3.9	5.0	6.8	8.3
Balance Sheet	2020A	2021A	2022F	2023F	2024F	Gross profit	2.1	2.6	3.3	4.2	5.3
Cash	2.5	21.6	22.9	24.4	26.3	EBIT	-1.3	-0.9	0.0	0.3	0.7
Debtors	1.4	2.2	2.2	2.2	2.2	EBIT margin (%)	-38.7%	-22.9%	0.5%	4.9%	8.5%
Inventory	0.0	0.0	0.0	0.0	0.0	DPS	0.0	0.0	0.0	0.0	0.0
PPE	0.2	0.0	0.0	0.0	0.0						
Intangibles	0.0	0.0	0.0	0.0	0.0	Board of Directors / Substantial Shareholders					
Other assets	0.2	0.3	0.3	0.3	0.3	Board of Directors		Shareholding	%		
Total Assets	4.3	24.1	25.4	26.9	28.8	Theodore Hnarakis (NEC)		11.8	1.7%		
Deferred Revenue	0.1	0.1	0.1	0.1	0.1	Charif Elansari (CEO)		29.5	4.3%		
Trade Creditors	1.3	2.0	2.0	2.0	2.0	Dr Bruce Tonkin (NED)		1.5	0.2%		
Unearned income	0.0	0.0	0.0	0.0	0.0						
Other Liabilities	0.1	0.1	0.1	0.1	0.1						
Total Liabilities	1.5	2.3	2.3	2.3	2.3						
NET ASSETS	2.8	21.8	23.1	24.6	26.5						

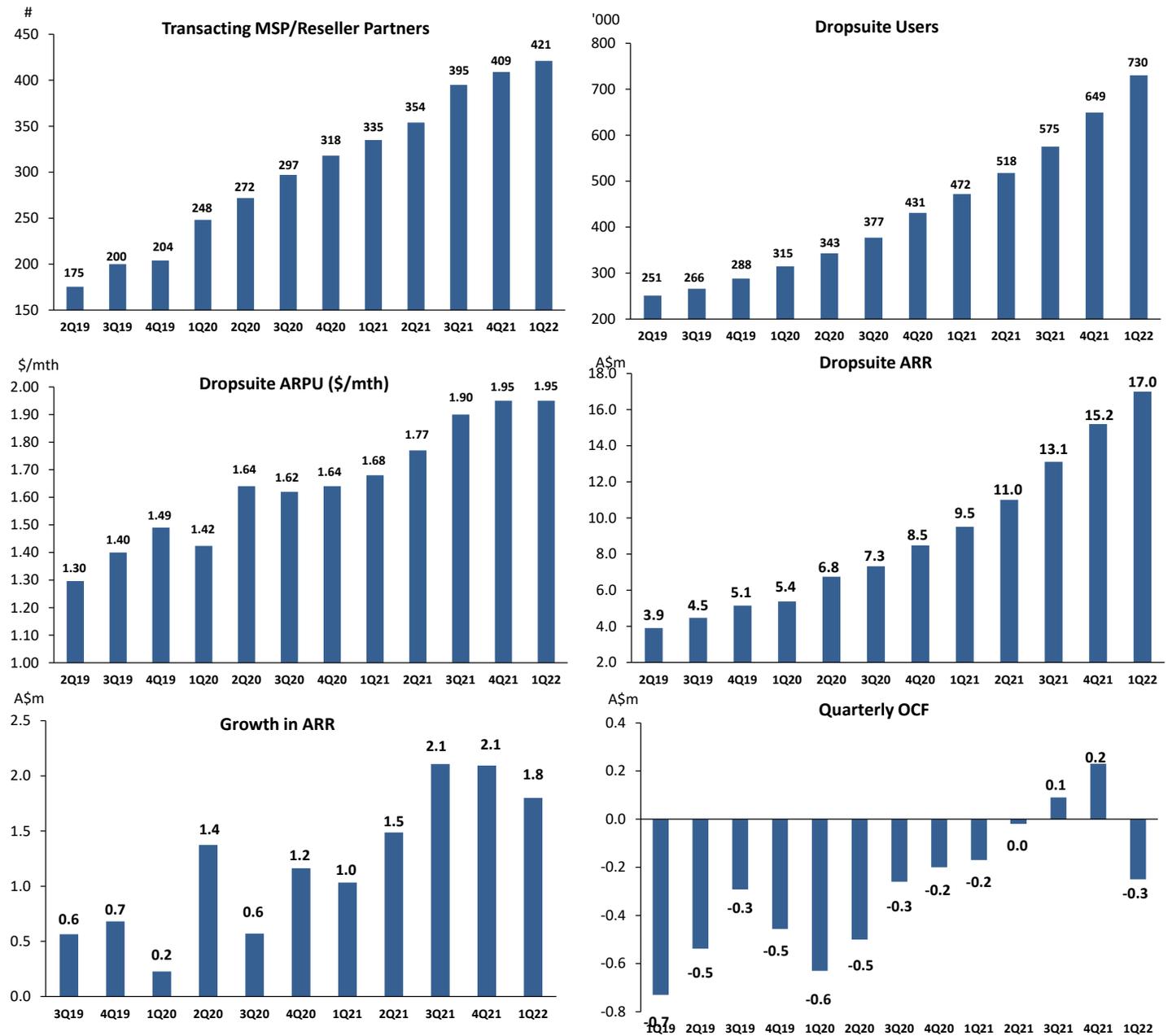
Source: Company reports, Canaccord Genuity estimates

Figure 2: Key P&L drivers

Profit & Loss		1H19A	2H19A	FY19A	1H20A	2H20A	FY20A	1H21A	2H21A	FY21A	1H22E	2H22E	FY22E	1H23E	2H23E	FY23E
Partners	#	175	204	204	272	318	318	335	409	409	459	509	509	559	609	609
New partners added	#		29		68	46	114	17	74	91	50	50	100	50	50	100
Users	'000	251	288	288	343	431	431	518	649	649	791	911	911	1004	1091	1091
User Growth	'000		37.1		55.0	88.0	143.0	87.0	131.0	218.0	141.5	120.6	262.2	93.0	86.8	179.8
Users/partner	'000	1,430	1,412	1,412	1,261	1,355	1,355	1,546	1,587	1,587	1,722	1,790	1,790	1,796	1,791	1,791
ARPU	A\$/mth	1.30	1.49	1.49	1.64	1.64	1.64	1.77	1.95	1.95	1.97	2.03	2.03	2.09	2.15	2.15
ARR	A\$m	3.9	5.1	5.1	6.8	8.5	8.5	11.0	15.2	15.2	18.7	22.2	22.2	25.2	28.2	28.2
ARR growth	A\$m		1.2		1.6	1.7	3.3	2.5	4.2	6.7	3.5	3.5	7.0	3.0	3.0	6.0
Group Revenue	A\$m	2.3	2.4	4.7	3.2	3.9	7.1	5.0	6.8	11.7	8.3	10.0	18.2	11.6	13.0	24.6
COGS	A\$m	0.7	0.9	1.7	1.1	1.3	2.5	1.6	2.5	4.2	2.9	3.5	6.5	4.1	4.6	8.7
Gross Profit	A\$m	1.6	1.5	3.0	2.1	2.6	4.6	3.3	4.2	7.5	5.3	6.4	11.8	7.5	8.4	15.8
Gross profit margin	%	68%	61%	64%	65%	66%	65%	67%	62%	64%	64%	64%	64%	64%	64%	64%
Total Opex	A\$m	2.7	2.7	5.4	3.0	3.3	6.3	3.3	3.9	7.2	4.6	5.8	10.4	6.7	7.7	14.3
EBITDA	A\$m	-1.1	-1.3	-2.3	-0.9	-0.8	-1.7	0.0	0.4	0.4	0.7	0.6	1.3	0.8	0.7	1.5
Depreciation and Amortisation	A\$m	-0.4	-0.4	-0.8	-0.4	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	A\$m	-1.5	-1.7	-3.2	-1.3	-0.9	-2.2	0.0	0.3	0.4	0.7	0.6	1.3	0.8	0.7	1.5
Net Interest	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPBT	A\$m	-1.5	-1.7	-3.1	-1.3	-0.9	-2.1	0.0	0.3	0.4	0.7	0.6	1.3	0.8	0.7	1.5
Tax Expense	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (normalised)	A\$m	-1.5	-1.7	-3.1	-1.3	-0.9	-2.1	-0.1	0.0	0.0	0.7	0.6	1.3	0.8	0.7	1.5
Balance Sheet		1H19A	2H19A	FY19A	1H20A	2H20A	FY20A	1H21A	2H21A	FY21A	1H22E	2H22E	FY22E	1H23E	2H23E	FY23E
Cash	A\$m	0.0	0.0	1.4	3.0	2.5	2.5	2.4	21.6	21.6	22.3	22.9	22.9	23.7	24.4	24.4
Receivables	A\$m	0.0	0.0	0.8	1.2	1.4	1.4	1.8	1.8	2.2	2.2	2.2	2.2	2.2	2.2	2.2
PPE	A\$m	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	A\$m	0.0	0.0	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	A\$m	0.0	0.0	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Assets	A\$m	0.0	0.0	2.9	4.5	4.3	4.3	4.5	23.8	24.1	24.8	25.4	25.4	26.2	26.9	26.9
Payables	A\$m	0.0	0.0	0.9	1.0	1.3	1.3	1.6	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Provisions	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest bearing liabilities	A\$m	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	A\$m	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Liabilities	A\$m	0.0	0.0	1.1	1.1	1.4	1.4	1.8	1.8	2.2						
Equity	A\$m	0.0	0.0	1.8	3.4	2.5	2.5	2.7	22.0	21.9	22.6	23.1	23.1	23.9	24.7	24.7
ROE	%			-174.9%	-74.0%	-69.9%	-84.4%	-5.3%	0.4%	-0.1%	3.1%	2.8%	5.8%	3.3%	3.0%	6.3%
Financial leverage ratio	x			1.6	1.3	1.7	1.7	1.7	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Cash Flow Statement		1H19A	2H19A	FY19A	1H20A	2H20A	FY20A	1H21A	2H21A	FY21A	1H22E	2H22E	FY22E	1H23E	2H23E	FY23E
EBITDA	A\$m	-1.1	-1.3	-2.3	-0.9	-0.8	-1.7	0.0	0.4	0.4	0.7	0.6	1.3	0.8	0.7	1.5
Working Capital	A\$m	1.1	1.3	0.5	-0.4	0.3	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest paid	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income taxes paid	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net operating cash flows	A\$m	0.0	0.0	-1.8	-1.3	-0.5	-1.8	-0.1	0.4	0.3	0.7	0.6	1.3	0.8	0.7	1.5
PPE	A\$m	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	-0.1
Development costs	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other/Acquisitions	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investing cash flows	A\$m	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	-0.1							
Proceeds from issue of securities	A\$m	0.0	0.0	0.0	2.9	0.0	2.9	0.0	18.9	18.9	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowings	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financing cash flows	A\$m	0.0	0.0	0.0	2.9	0.0	2.9	0.0	18.9	18.9	0.0	0.0	0.0	0.0	0.0	0.0
Net change	A\$m	0.0	0.0	-1.8	1.6	-0.5	1.1	-0.1	19.2	19.1	0.7	0.6	1.3	0.8	0.7	1.5
Cash at beginning of period	A\$m	0.0	0.0	3.2	1.4	2.9	1.3	2.5	2.4	2.5	21.6	22.3	21.6	22.9	23.7	22.9
Cash at end of period	A\$m	0.0	0.0	1.4	3.0	2.4	2.4	2.4	21.6	21.6	22.3	22.9	22.9	23.7	24.4	24.4

Source: Company reports, Canaccord Genuity estimates

Figure 3: Key growth charts



Source: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

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Sector Coverage

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Investment Recommendation

Date and time of first dissemination: April 20, 2022, 04:11 ET

Date and time of production: April 20, 2022, 04:11 ET

Target Price / Valuation Methodology:

Dropsuite Ltd - DSE

DCF methodology (\$0.30ps, Ke 13%, β 1.5x, ERP 5.5%): Our terminal value incorporates a long-term cash EBIT margin of 35% (gross profit margin 65%, steady state S&M expense 5%, capex/G&A 25%) on our FY26E ARR expectations of \$46m (+25% CAGR). We assume a terminal EBIT multiple of 15x which is broadly in line with its ASX-listed industrial peers.

Risks to achieving Target Price / Valuation:

Dropsuite Ltd - DSE

SMB spending headwinds

DSE's MSP partners sell directly to SMEs, and any change in SMB spending levels, or propensity to spend on cloud technology, could create headwinds for DSE. Further COVID-19 waves/restrictions, or a broader economic recession impacting spending patterns will be a headwind for DSE.

M&A risks

DSE holds a strong balance sheet and been open with investors about the potential for bolt-on acquisitions. While we do not anticipate transformation deals, DSE has not been acquisitive in the past and thus this new strategy poses a risk to investors.

Reputational harm

A successful cyberattack could have a negative impact on DSE's reputation and its ability to sign on new partners. While DSE has never had a breach and states its data encryption and storage capability is military grade, any breach would be a major business risk.

Competitive markets

DSE operates in the competitive data management and backup space with larger well-funded competitive with diverse products. DSE differentiates itself in the market by purely focusing in on MSPs, and longer term we believe the data backup space could become more competitive.

Inability to sign new MSP partners

DSE has materially increasing its distribution partners over the last three years. If DSE's product or prices become less competitive it may struggle to onboard new MSPs and this could impact its revenue profile.

Revenue concentration

66% of DSE revenues are sourced from its top 10 distribution partners. The high level of concentration risk and potential for these to churn poses a risk to our revenue and earnings forecasts.

Distribution of Ratings:

Global Stock Ratings (as of 04/20/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	646	68.14%	40.09%
Hold	140	14.77%	20.00%
Sell	10	1.05%	20.00%
Speculative Buy	148	15.61%	52.70%
	948*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

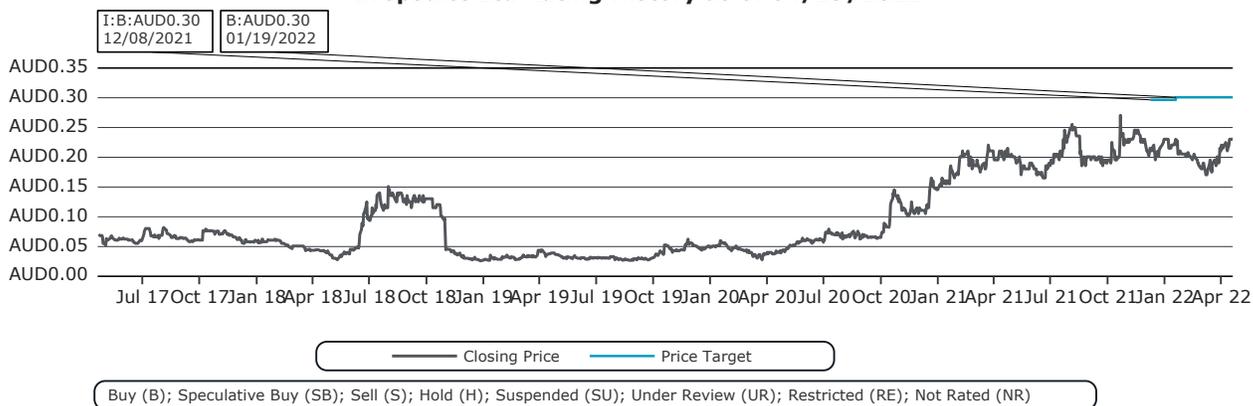
12-Month Recommendation History (as of date same as the Global Stock Ratings table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx>

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Dropsuite Ltd Rating History as of 04/19/2022



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