

Dropsuite Ltd

Software and Services

| | |
|-----------------------------------|---|
| Rating BUY unchanged | Price Target A\$0.34 unchanged |
| DSE-ASX | Price A\$0.23 |

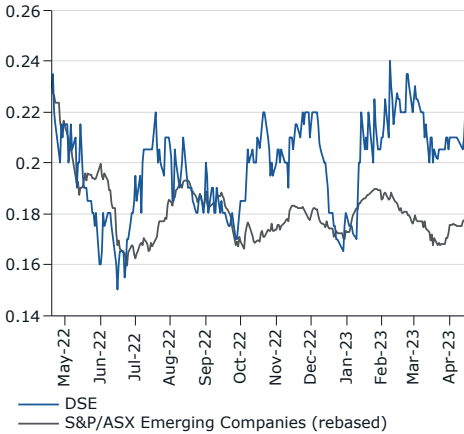
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Another strong quarter (+66% ARRg, +4% FCF margin); breakout year ahead

Market Data

| | |
|---------------------------|-------------|
| 52-Week Range (A\$) : | 0.15 - 0.25 |
| Market Cap (A\$M) : | 156.2 |
| Shares Out. (M) : | 679.3 |
| Dividend /Shr (A\$) : | 0.00 |
| Dividend Yield (%) : | 0.0 |
| Enterprise Value (A\$M) : | 134 |
| Cash (A\$M) : | 22.3 |
| Long-Term Debt (A\$) : | 0.0 |

| FYE Dec | 2022A | 2023E | 2024E | 2025E |
|------------------------|-------|-------|-------|-------|
| Sales (A\$M) | 21.0 | 28.1↑ | 35.7↑ | 41.6 |
| Previous | - | 27.7 | 34.5 | - |
| Gross Profit (A\$M) | 13.9 | 18.9 | 23.9 | 27.9 |
| EBITDA (A\$M) | 2.1 | 2.7↑ | 4.1↑ | 5.8 |
| Previous | - | 2.5 | 3.7 | - |
| EBIT (A\$M) | 2.1 | 2.7↑ | 4.0↑ | 5.7 |
| Previous | - | 2.5 | 3.7 | - |
| Net Income Adj (A\$M) | 2.1 | 2.7↑ | 4.0↑ | 5.7 |
| Previous | - | 2.5 | 3.7 | - |
| Net Debt (Cash) (A\$M) | (22) | (25)↑ | (29) | (35) |
| Previous | - | (26) | - | - |
| EV/Sales (x) | 6.4 | 4.7 | 3.6 | 2.9 |



Source: FactSet

Priced as of close of business 17 April 2023

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

DSE continues to outperform our expectations, positioning itself as one of the fastest-growing small cap stocks on the ASX with the added benefit of being FCF positive. **DSE reported another strong 1Q23 result with strong ARR growth (+66% yoy) and positive FCF margin (+4% yoy) with recent hires (+20 in 1Q23) and new product launches expected to see a strong CY23 performance.** DSE is benefiting from the multiplicative tailwinds of structural migration to Office365 (350m users in 2021 to 570m users by 2026), low current uptake of back-up products by SME (84% of companies don't back-up their emails) and taking share within the MSP channel. This should underpin elevated growth rates for DSE over an extended period of time (i.e. ~+50% revenue CAGR to 2026).

Earnings revisions: We have upgraded our FY23E, FY24E and FY25E revenue forecasts by +2%, +3% and +3%, respectively.

Key financials

- **ARR** increased +11% qoq and +66% yoy to \$28.2m (CGe \$27.2m, +4% upgrade). The incremental quarterly ARR add of \$2.8m represents a near-record quarter and surpasses the two-year incremental trend (\$2.1m/qtr). Annualising 1Q represents a CY23 ARR of \$36.6m vs CGe/Capital IQ consensus estimates of \$32.4m (+13% upside), implying further potential upgrades in the coming year.
- Key metrics of **ARPU** and **user numbers** trending positively. ARPU of \$2.31/user increased +18% yoy, benefiting from a shift to higher ARPU product mix (i.e. upsell to archiving, new products) with gross paying users increasing +87k to 1.02m. DSE sells through Managed Service Providers (i.e. outsourced IT departments and distributors), with cloud security becoming a more valuable product to end clients given the increasing focus on data security and regulation. DSE increased its MSP count by +6% qoq and +24% pcp to bring the total direct partners to 524.
- **Gross margins** remained stable qoq at 69% following consecutive quarters of expansion due to storage cost savings (pcp 63%). In our view, long-term gross profit upside relates to moving to private cloud (vs AWS) which sees gross profit margins expand to >80%, ultimately increasing DSE's operating leverage to growth. We believe this is also likely to translate to elevated long-term EBIT margins, given the partner led business model which generates >60% gross profit after marketing margins.
- DSE reported its fourth consecutive quarter of **positive OCF** (\$0.3m) and inaugural 1Q FCF positive period (typically impacted by annual subscription, insurance and staff bonus payments). This quarter also incurred wage and salary growth with a number of new hires to support growth.

Our view/outlook: DSE's quarterly illustrates it as one of the fastest-growing SaaS stocks on the ASX. Almost all of DSE's revenue comes from highly predictable, recognised subscriptions from its customers with negligible churn. DSE provided implicate forward guidance that it expects it will be "*delivering 2x industry growth till 2025*" which infers ~+50% revenue CAGR (vs CGe +25% CAGR) providing upside to our and consensus forecasts. We believe FY23 should theoretically be a breakout year for DSE, with elevated organic growth rates (~+70%), new product launches (Quickbooks backup, government cloud back-up) and targeted acquisitions (\$23m net cash). We remain a conviction BUY on DSE.

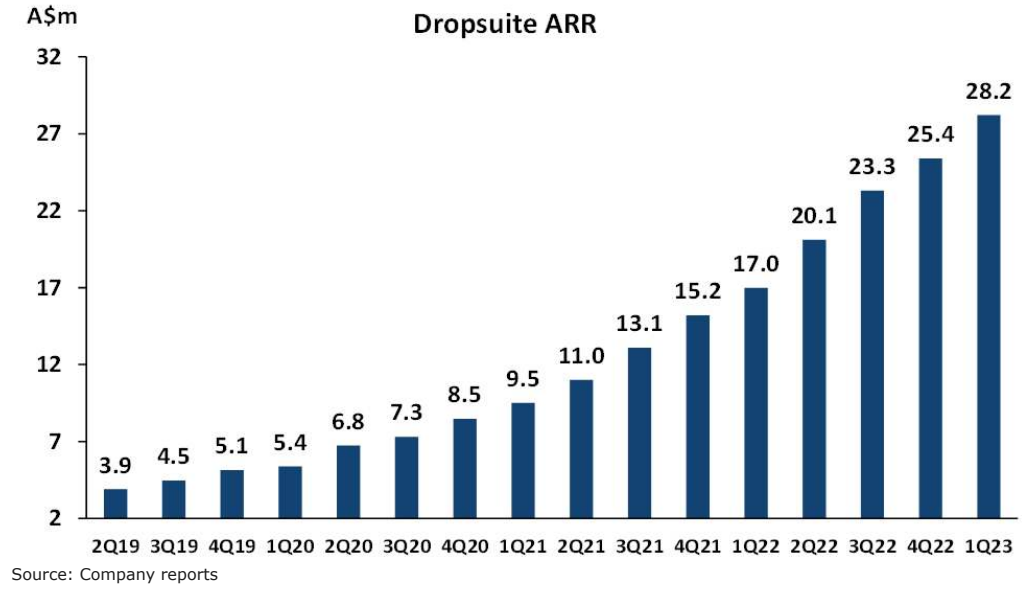


Figure 1: Dropsuite (DSE-AU): Financial summary

| | | | | | | Share Price | \$ 0.23 | | | | |
|--|--------------|--------------|--------------|--------------|--------------|---------------------|--------------|--------------|--------------|--------------|--|
| | | | | | | Market Cap | \$ 156.2 | | | | |
| Dropsuite (DSE) | | | | | | | | | | | |
| Profit & Loss (\$m) | 2021A | 2022A | 2023F | 2024F | 2025F | | | | | | |
| ARR | 15.2 | 25.4 | 33.6 | 39.6 | 46.1 | | | | | | |
| Sales Revenue | 11.7 | 21.0 | 28.1 | 35.7 | 41.6 | | | | | | |
| COGS | -4.2 | -7.1 | -9.3 | -11.8 | -13.7 | | | | | | |
| Gross Profit | 7.5 | 13.9 | 18.9 | 23.9 | 27.9 | | | | | | |
| Opex | -7.2 | -11.8 | -16.1 | -19.8 | -22.1 | | | | | | |
| EBITDA | 0.4 | 2.1 | 2.7 | 4.1 | 5.8 | | | | | | |
| D & A | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | | | | | | |
| EBIT | 0.4 | 2.1 | 2.7 | 4.0 | 5.7 | | | | | | |
| Net Interest Expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| NPBT | 0.4 | 2.1 | 2.7 | 4.0 | 5.7 | | | | | | |
| Tax expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| NPAT (Normalised) | 0.4 | 2.1 | 2.7 | 4.0 | 5.7 | | | | | | |
| Significant items | -0.4 | -0.6 | 0.0 | 0.0 | 0.0 | | | | | | |
| NPAT (Reported) | 0.0 | 1.5 | 2.7 | 4.0 | 5.7 | | | | | | |
| <i>Gross Profit Margin (%)</i> | | | | | | | | | | | |
| | 64.5% | 66.2% | 67.0% | 67.0% | 67.0% | | | | | | |
| <i>EBITDA Margin (%)</i> | | | | | | | | | | | |
| | 3.3% | 10.1% | 9.6% | 11.5% | 13.9% | | | | | | |
| <i>EBIT Margin (%)</i> | | | | | | | | | | | |
| | 3.0% | 9.8% | 9.4% | 11.3% | 13.7% | | | | | | |
| <i>NPAT Margin (%)</i> | | | | | | | | | | | |
| | -0.3% | 7.0% | 9.4% | 11.3% | 13.7% | | | | | | |
| Cash Flow (\$m) | | | | | | | | | | | |
| Operating EBITDA | 0.4 | 2.1 | 2.7 | 4.1 | 5.8 | | | | | | |
| - Interest & Tax Paid | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | | | | | | |
| +/- change in Work. Cap. | -0.1 | -1.4 | 0.0 | 0.0 | 0.0 | | | | | | |
| - other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Operating Cashflow | 0.3 | 0.9 | 2.7 | 4.1 | 5.8 | | | | | | |
| - Other Capex | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | | | | | | |
| - Intangibles/other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| - Acquisitions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Free Cashflow | 0.2 | 0.9 | 2.6 | 4.0 | 5.7 | | | | | | |
| - Ord Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| - Equity /other | 18.9 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Net Cashflow | 19.1 | 0.9 | 2.6 | 4.0 | 5.7 | | | | | | |
| Cash at beginning of period | 2.4 | 21.6 | 22.5 | 25.1 | 29.1 | | | | | | |
| +/- borrowings / other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Cash at end of period | 21.5 | 22.5 | 25.1 | 29.1 | 34.8 | | | | | | |
| Balance Sheet | | | | | | | | | | | |
| Cash | 21.6 | 22.3 | 25.1 | 29.1 | 34.8 | | | | | | |
| Debtors | 2.2 | 4.1 | 4.1 | 4.1 | 4.1 | | | | | | |
| Inventory | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| PPE | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | | | | | | |
| Intangibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Other assets | 0.3 | 0.5 | 0.5 | 0.5 | 0.5 | | | | | | |
| Total Assets | 24.1 | 26.9 | 29.7 | 33.7 | 39.4 | | | | | | |
| Deferred Revenue | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | | | | | | |
| Trade Creditors | 2.0 | 2.5 | 2.5 | 2.5 | 2.5 | | | | | | |
| 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 | 2.3 | 2.8 | 2.8 | 2.8 | 2.8 | | | | | | |
| NET ASSETS | 21.8 | 24.2 | 26.9 | 30.9 | 36.6 | | | | | | |
| Valuation ratios | | | | | | 2021A | 2022A | 2023F | 2024F | 2025F | |
| EPS (cps) | 0.0 | 0.2 | 0.2 | 0.3 | 0.4 | | | | | | |
| Enterprise Value (\$m) | 135 | 134 | 131 | 127 | 121 | | | | | | |
| EV/ARR | 8.9 | 5.3 | 3.9 | 3.2 | 2.6 | | | | | | |
| EV/Revenue | 11.5 | 6.4 | 4.7 | 3.6 | 2.9 | | | | | | |
| EV/Gross Profit | 17.8 | 9.7 | 7.0 | 5.3 | 4.4 | | | | | | |
| EV/GPAPA (gp after S&M) | 17.8 | 9.7 | 7.0 | 5.3 | 4.4 | | | | | | |
| EV / EBITDA (x) | nmf | nmf | nmf | nmf | nmf | | | | | | |
| P/E (x) | nmf | nmf | nmf | nmf | nmf | | | | | | |
| DPS (cps) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Payout ratio (%) | 0% | 0% | 0% | 0% | 0% | | | | | | |
| Dupont Analysis | | | | | | 2021A | 2022A | 2023F | 2024F | 2025F | |
| Net Profit Margin | -0.3% | 7.0% | 9.4% | 11.3% | 13.7% | | | | | | |
| Asset Turnover | 0.5 | 0.8 | 0.9 | 1.1 | 1.1 | | | | | | |
| ROA (%) | -0.1% | 5.4% | 8.9% | 12.0% | 14.5% | | | | | | |
| Financial Leverage | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | | | | | | |
| ROE (%) | -0.1% | 6.1% | 9.9% | 13.0% | 15.6% | | | | | | |
| Balance Sheet ratios | | | | | | 2021A | 2022A | 2023F | 2024F | 2025F | |
| Net Debt (cash) | -21.6 | -22.3 | -25.1 | -29.1 | -34.8 | | | | | | |
| NTA per share (\$) | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | | | | | | |
| Price / NTA (x) | 6.5 | 6.5 | 5.8 | 5.1 | 4.3 | | | | | | |
| Shares on issue (m) | 679.3 | 679.3 | 679.3 | 679.3 | 679.3 | | | | | | |
| EPPOWA (m) | 616.7 | 679.3 | 679.3 | 679.3 | 679.3 | | | | | | |
| Assumptions | | | | | | 2021A | 2022A | 2023F | 2024F | 2025F | |
| Revenue growth | 64.7% | 79.0% | 34.3% | 26.8% | 16.7% | | | | | | |
| Gross profit margin | 64.5% | 66.2% | 67.0% | 67.0% | 67.0% | | | | | | |
| Opex growth | 13.6% | 64.3% | 48.6% | 28.8% | 19.9% | | | | | | |
| Users ('000) | 649.0 | 935.0 | 1156.6 | 1284.9 | 1409.9 | | | | | | |
| MSP (#) | 409 | 491 | 591 | 691 | 791 | | | | | | |
| ARPU (A\$) | 2.0 | 2.3 | 2.4 | 2.6 | 2.7 | | | | | | |
| ARR (A\$m) | 15.2 | 25.4 | 33.6 | 39.6 | 46.1 | | | | | | |
| Interim Analysis | | | | | | 1H21A | 2H21A | 1H22A | 2H22A | 1H23E | |
| Revenues | 5.0 | 6.8 | 8.9 | 12.1 | 12.9 | | | | | | |
| Gross profit | 3.3 | 4.2 | 5.6 | 8.3 | 8.7 | | | | | | |
| EBIT | 0.0 | 0.3 | 0.5 | 1.6 | 1.1 | | | | | | |
| EBIT margin (%) | 0.5% | 4.9% | 5.5% | 13.2% | 8.7% | | | | | | |
| DPS | 0.0 | 0.0 | 0.0 | 1.0 | 3.0 | | | | | | |
| Board of Directors / Substantial Shareholders | | | | | | | | | | | |
| Board of Directors | | | | | | Shareholding | % | | | | |
| Theodore Hnarakis (NEC) | | | | | | 11.8 | 1.7% | | | | |
| Charif Elansari (CEO) | | | | | | 29.5 | 4.3% | | | | |
| Dr Bruce Tonkin (NED) | | | | | | 1.5 | 0.2% | | | | |

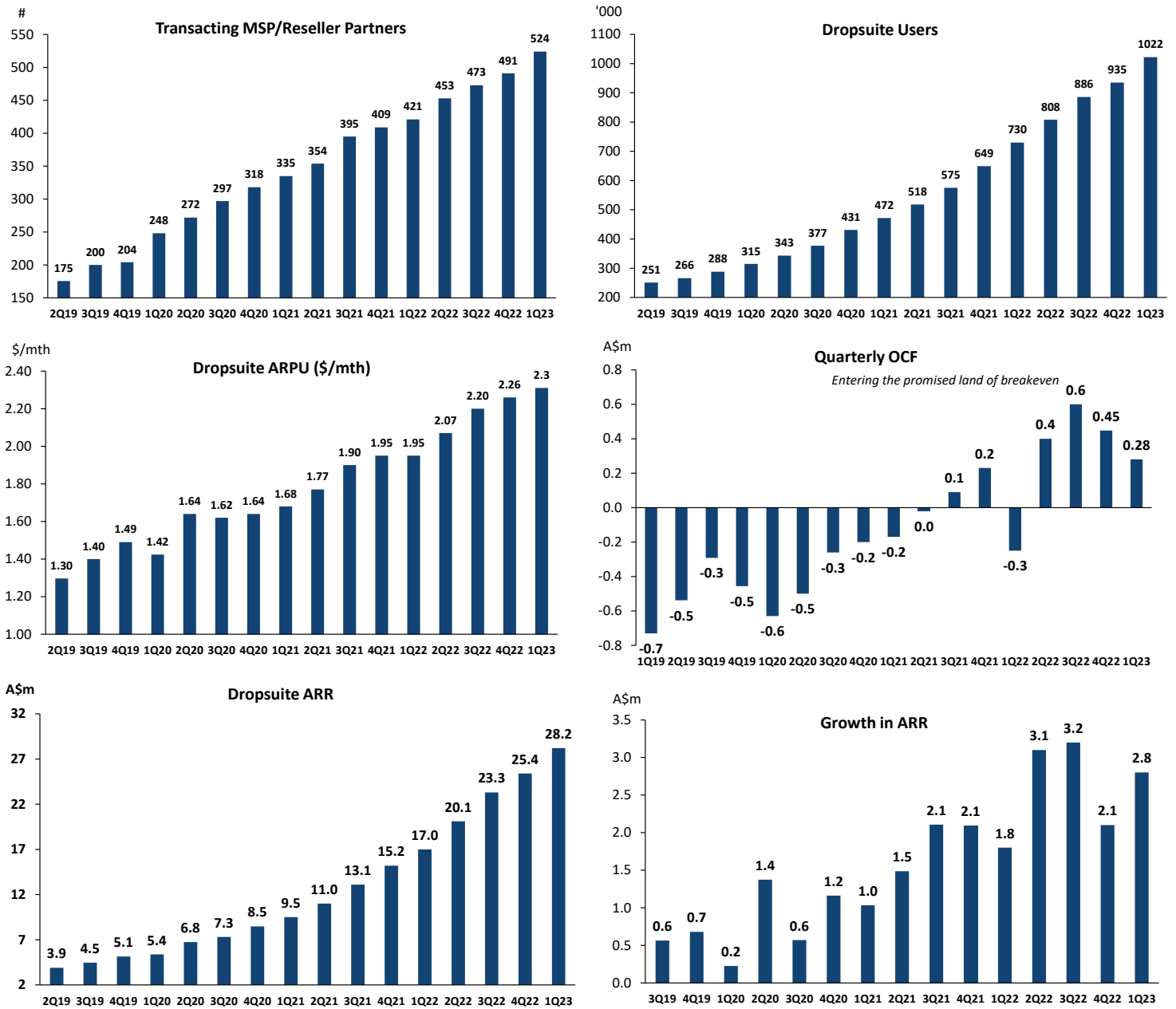
Source: Company reports, Canaccord Genuity estimates

Figure 2: P&L assumptions, balance sheet and cash flow summary

| Profit & Loss | | 1H19A | 2H19A | FY19A | 1H20A | 2H20A | FY20A | 1H21A | 2H21A | FY21A | 1H22A | 2H22A | FY22A | 1H23E | 2H23E | FY23E |
|-----------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Partners | # | 175 | 204 | 204 | 272 | 318 | 318 | 335 | 409 | 409 | 453 | 491 | 491 | 541 | 591 | 591 |
| New partners added | # | | 29 | | 68 | 46 | 114 | 17 | 74 | 91 | 44 | 38 | 82 | 50 | 50 | 100 |
| Users | '000 | 251 | 288 | 288 | 343 | 431 | 431 | 518 | 649 | 649 | 808 | 935 | 935 | 1035 | 1157 | 1157 |
| User Growth | '000 | | 37.1 | | 55.0 | 88.0 | 143.0 | 87.0 | 131.0 | 218.0 | 159.0 | 127.0 | 286.0 | 99.6 | 122.0 | 221.6 |
| Users/partner | '000 | 1,430 | 1,412 | 1,412 | 1,261 | 1,355 | 1,355 | 1,546 | 1,587 | 1,587 | 1,784 | 1,904 | 1,904 | 1,912 | 1,957 | 1,957 |
| ARPU | A\$/mth | 1.30 | 1.49 | 1.49 | 1.64 | 1.64 | 1.64 | 1.77 | 1.95 | 1.95 | 2.07 | 2.26 | 2.26 | 2.33 | 2.42 | 2.42 |
| ARR | A\$m | 3.9 | 5.1 | 5.1 | 6.8 | 8.5 | 8.5 | 11.0 | 15.2 | 15.2 | 20.1 | 25.4 | 25.4 | 28.9 | 33.6 | 33.6 |
| ARR growth | A\$m | | 1.2 | | 1.6 | 1.7 | 3.3 | 2.5 | 4.2 | 6.7 | 4.9 | 5.3 | 10.2 | 3.5 | 4.7 | 8.2 |
| Group Revenue | A\$m | 2.3 | 2.4 | 4.7 | 3.2 | 3.9 | 7.1 | 5.0 | 6.8 | 11.7 | 8.9 | 12.1 | 21.0 | 12.9 | 15.2 | 28.1 |
| COGS | A\$m | 0.7 | 0.9 | 1.7 | 1.1 | 1.3 | 2.5 | 1.6 | 2.5 | 4.2 | 3.3 | 3.7 | 7.1 | 4.3 | 5.0 | 9.3 |
| Gross Profit | A\$m | 1.6 | 1.5 | 3.0 | 2.1 | 2.6 | 4.6 | 3.3 | 4.2 | 7.5 | 5.6 | 8.3 | 13.9 | 8.7 | 10.2 | 18.9 |
| Gross profit margin | % | 68% | 61% | 64% | 65% | 66% | 65% | 67% | 62% | 64% | 62% | 69% | 66% | 67% | 67% | 67% |
| Total Opex | A\$m | 2.7 | 2.7 | 5.4 | 3.0 | 3.3 | 6.3 | 3.3 | 3.9 | 7.2 | 5.1 | 6.7 | 11.8 | 7.5 | 8.6 | 16.1 |
| EBITDA | A\$m | -1.1 | -1.3 | -2.3 | -0.9 | -0.8 | -1.7 | 0.0 | 0.4 | 0.4 | 0.5 | 1.6 | 2.1 | 1.2 | 1.5 | 2.7 |
| 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 | -0.1 | 0.0 | 0.0 | -0.1 |
| EBIT | A\$m | -1.5 | -1.7 | -3.2 | -1.3 | -0.9 | -2.2 | 0.0 | 0.3 | 0.4 | 0.5 | 1.6 | 2.1 | 1.1 | 1.5 | 2.7 |
| 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 | 0.5 | 1.6 | 2.1 | 1.1 | 1.5 | 2.7 |
| 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 | 0.3 | 1.6 | 1.5 | 1.1 | 1.5 | 2.7 |
| Balance Sheet | | 1H19A | 2H19A | FY19A | 1H20A | 2H20A | FY20A | 1H21A | 2H21A | FY21A | 1H22A | 2H22A | FY22A | 1H23E | 2H23E | FY23E |
| Cash | A\$m | 0.0 | 0.0 | 1.4 | 3.0 | 2.5 | 2.5 | 2.4 | 21.6 | 21.6 | 21.6 | 22.3 | 22.3 | 23.6 | 25.1 | 25.1 |
| Receivables | A\$m | 0.0 | 0.0 | 0.8 | 1.2 | 1.4 | 1.4 | 1.8 | 1.8 | 2.2 | 3.0 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 |
| PPE | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| 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 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Assets | A\$m | 0.0 | 0.0 | 2.9 | 4.5 | 4.3 | 4.3 | 4.5 | 23.8 | 24.1 | 25.0 | 26.9 | 26.9 | 28.2 | 29.7 | 29.7 |
| Payables | A\$m | 0.0 | 0.0 | 0.9 | 1.0 | 1.3 | 1.3 | 1.6 | 1.6 | 2.0 | 2.3 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| 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 | 0.2 | 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 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities | A\$m | 0.0 | 0.0 | 1.1 | 1.1 | 1.4 | 1.4 | 1.8 | 1.8 | 2.2 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Equity | A\$m | 0.0 | 0.0 | 1.8 | 3.4 | 2.5 | 2.5 | 2.7 | 22.0 | 21.9 | 22.5 | 24.2 | 24.2 | 25.4 | 26.9 | 26.9 |
| ROE | % | | | -174.9% | -74.0% | -69.9% | -84.4% | -5.3% | 0.4% | -0.1% | 1.4% | 6.6% | 6.1% | 4.4% | 5.7% | 9.9% |
| 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 | 1H22A | 2H22A | FY22A | 1H23E | 2H23E | FY23E |
| EBITDA | A\$m | -1.1 | -1.3 | -2.3 | -0.9 | -0.8 | -1.7 | 0.0 | 0.4 | 0.4 | 0.5 | 1.6 | 2.1 | 1.2 | 1.5 | 2.7 |
| Working Capital | A\$m | 1.1 | 1.3 | 0.5 | -0.4 | 0.3 | -0.2 | -0.1 | 0.0 | -0.1 | -0.6 | -0.8 | -1.4 | 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 | 0.2 | 0.2 | 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 | -0.1 | 1.0 | 0.9 | 1.2 | 1.5 | 2.7 |
| PPE | A\$m | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | -0.1 | -0.1 | 0.0 | -0.1 | -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 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | -0.1 | -0.1 | 0.0 | -0.1 | -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 | -0.1 | 1.0 | 0.9 | 1.1 | 1.5 | 2.6 |
| 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 | 21.5 | 21.6 | 22.5 | 23.6 | 22.5 |
| 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 | 21.5 | 22.5 | 22.5 | 23.6 | 25.1 | 25.1 |

Source: Company reports, Canaccord Genuity estimates

Figure 3: Key charts



Source: Company reports, Canaccord Genuity

Figure 4: Earnings Revisions

| | FY21A | | FY22A | | FY23E | | | FY24E | | | FY25E | | |
|--------------------------|-------------|-------------|-------------|-------------|-----------|-------------|-------------|------------|-------------|-------------|-----------|--|--|
| | | | prev. | Curr. | % chg | prev. | Curr. | % chg | prev. | Curr. | % chg | | |
| Operating Revenue | 11.7 | 21.0 | 27.7 | 28.1 | 2% | 34.5 | 35.7 | 3% | 40.5 | 41.6 | 3% | | |
| COGS | -4.2 | -7.1 | -9.9 | -9.3 | -6% | -12.3 | -11.8 | -4% | -14.4 | -13.7 | -5% | | |
| Gross profit | 7.5 | 13.9 | 17.9 | 18.9 | 6% | 22.2 | 23.9 | 7% | 26.1 | 27.9 | 7% | | |
| Gross profit margin | 64% | 66% | 64% | 67% | | 64% | 67% | | 64% | 67% | | | |
| Opex | -7.2 | -11.8 | -15.3 | -16.1 | 5% | -18.5 | -19.8 | 7% | -20.4 | -22.1 | 9% | | |
| EBITDA | 0.4 | 2.11 | 2.5 | 2.7 | 8% | 3.7 | 4.1 | 10% | 5.7 | 5.8 | 1% | | |
| D&A | 0.0 | -0.1 | 0.0 | -0.1 | - | 0.0 | -0.1 | - | 0.0 | -0.1 | - | | |
| EBIT | 0.4 | 2.1 | 2.5 | 2.7 | | 3.7 | 4.0 | | 5.72 | 5.71 | | | |
| Net interest | 0.0 | 0.0 | 0.0 | 0.0 | - | 0.0 | 0.0 | - | 0.0 | 0.0 | - | | |
| NPBT | 0.4 | 2.1 | 2.5 | 2.7 | | 3.7 | 4.0 | | 5.7 | 5.7 | | | |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | - | 0.0 | 0.0 | - | 0.0 | 0.0 | - | | |
| NPAT normalised | 0.4 | 2.1 | 2.5 | 2.7 | | 3.7 | 4.0 | | 5.7 | 5.7 | | | |

Source: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: April 17, 2023, 02:39 ET

Date and time of production: April 17, 2023, 02:39 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).

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 04/17/23)

| Rating | Coverage Universe | | IB Clients |
|-----------------|-------------------|--------|------------|
| | # | % | % |
| Buy | 605 | 64.64% | 22.31% |
| Hold | 144 | 15.38% | 9.72% |
| Sell | 16 | 1.71% | 0.00% |
| Speculative Buy | 157 | 16.77% | 43.95% |
| | 936* | 100.0% | |

*Total includes stocks that are Under Review

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

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Dropsuite Ltd Rating History as of 04/14/2023



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