

Dropsuite Ltd

Software and Services

19 January 2022

Rating
BUY
unchanged

Price Target
A\$0.30
unchanged

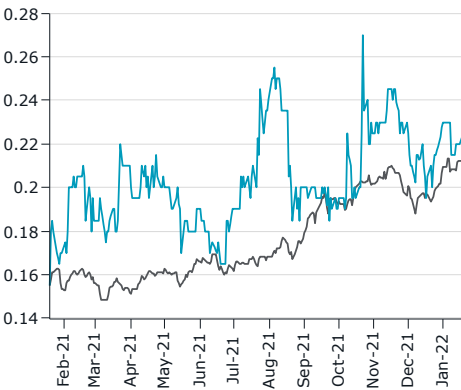
DSE-ASX

Price
A\$0.22

Market Data

52-Week Range (A\$) :	0.15 - 0.29
Market Cap (A\$M) :	149.4
Shares Out. (M) :	679.3
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	128
Cash (A\$M) :	21.6
Long-Term Debt (A\$) :	0.0

FYE Dec	2020A	2021E	2022E	2023E
Sales (A\$M)	7.1	11.3↑	17.6↑	22.9↑
Previous	-	11.2	17.0	22.0
Gross Profit (A\$M)	4.6	7.5	11.6	15.1
EBITDA (A\$M)	(1.7)	0.1↑	1.4↑	1.7↑
Previous	-	(0.0)	0.8	0.8
EBIT (A\$M)	(2.2)	0.0↑	1.4↑	1.6↑
Previous	-	(0.1)	0.8	0.7
Net Income Adj (A\$M)	(2.1)	0.0↑	1.4↑	1.6↑
Previous	-	(0.1)	0.8	0.7
Net Debt (Cash) (A\$M)	(2)	(22)↓	(23)↓	(25)↓
Previous	-	(21)	(22)	(23)
EV/Sales (x)	20.7	11.3	7.2	5.4



Source: FactSet

Priced as of close of business 19 January 2022

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

Owen Humphries | Analyst | Canaccord Genuity (Australia) Ltd. | ohumphries@cgf.com | +61.2.9263.2702
Seth Hoskin | Analyst | Canaccord Genuity (Australia) Ltd. | shoskin@cgf.com | +61 3 8688 9146

+70% FY21 ARR growth; transformational year ahead

Canaccord will be conducting a roadshow for DSE on 8 February, please contact your sales representative for an introduction.

DSE reported its 4Q21 quarterly result and confirmed itself as one of the fastest-growing SaaS stocks on the ASX, with its ARR increasing +70% to \$15.2m (CGe \$14.6m, +4% beat, pcp \$8.5m). DSE provides cloud-based email and website back-up, archiving and recovery solutions to SMB-orientated Managed Service Providers (outsourced IT departments).

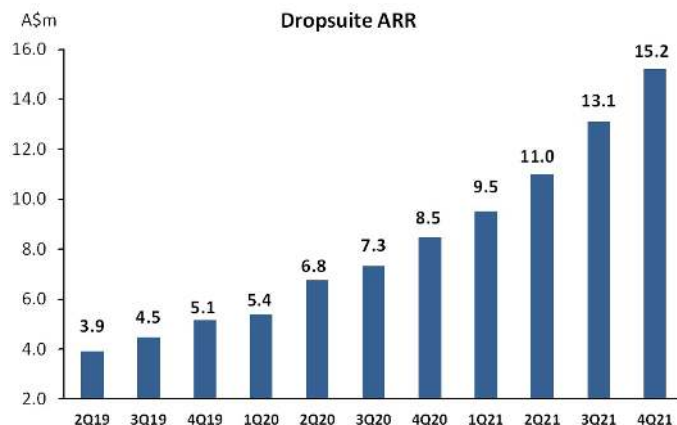
Earnings revisions: Our FY21, FY22E and FY23E ARR forecasts have been revised +4%, +5% and +4% respectively.

Key highlights from the quarter:

- 4Q21 ARR increased +13% qoq to A\$15.2m (CGe A\$14.6m) representing +70% vs pcp. **ARR growth** was underpinned by +51% growth in paying **users** (+79k to 649k; +13% qoq) and +19% **ARPU growth** (\$1.95/user/month, +3% qoq). User growth continues to be driven by new MSP partners (14x in 4Q21, 91x in FY21) as well as further proliferation of its existing MSP base. Uptake of DSE premium product suite (predominantly email archiving) should see ARPU continue to rise further in future periods.
- The company maintained its **positive FCF mantra**, generating +\$0.2m in 4Q21 with a ~\$22m net cash position. DSE "continues to actively assess potential acquisition opportunities" as it looks to diversify and expand its product suit.
- Recent investments in storage capacity resulted in 4Q21 **gross profit margins** reducing to 62% in 4Q21 (3Q21 64%, CGe 67%), with management expecting this to "stabilise within this range in the short term".

In our view, DSE is poised for a breakout year, with its impressive ARR growth expected to be driven from: i) existing MSP partner and product ecosystem; ii) launch of new internally developed products (FY21 G-Suite backup); iii) conversion on various M&A opportunities; and iv) increasing its internal investment as it passes through FCF positive (i.e. S&M in Europe/Asia-Pacific). 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 3.8x at +50% p.a. growth**). We retain our BUY recommendation and our \$0.30 price target is unchanged.

Please see our recent initiation [Exposure to the SMB digital transformation](#) for further details on our investment thesis.



Source: Company reports

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

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For important information, please see the Important Disclosures beginning on page 6 of this document.

Figure 1. Financial summary for DSE

Dropsuite (DSE)						Share Price \$ 0.22 Market Cap \$ 149.4					
Profit & Loss (\$m)	2019A	2020A	2021F	2022F	2023F	Valuation ratios	2019A	2020A	2021F	2022F	2023F
ARR	5.2	8.5	15.2	21.0	26.0	EPS (cps)	-0.6	-0.4	0.0	0.2	0.1
Sales Revenue	4.7	7.1	11.3	17.6	22.9	Enterprise Value (\$m)	148	147	128	126	125
COGS	-1.7	-2.5	-3.9	-6.0	-7.8	EV/ARR	28.5	17.3	8.4	6.0	4.8
Gross Profit	3.0	4.6	7.5	11.6	15.1	EV/Revenue	31.4	20.7	11.3	7.2	5.4
Opex	-5.4	-6.3	-7.4	-10.2	-13.5	EV/Gross Profit	48.9	31.6	17.1	10.9	8.2
EBITDA	-2.3	-1.7	0.1	1.4	1.7	EV/GPAPA (gp after S&M)	48.9	31.6	17.1	10.9	8.2
D & A	-0.8	-0.5	0.0	0.0	0.0	EV / EBITDA (x)	nmf	nmf	nmf	nmf	nmf
EBIT	-3.2	-2.2	0.0	1.4	1.6	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	-3.1	-2.1	0.0	1.4	1.6	Payout ratio (%)	0%	0%	0%	0%	0%
Tax expense	0.0	0.0	0.0	0.0	0.0	Dupont Analysis	2019A	2020A	2021F	2022F	2023F
NPAT (Normalised)	-3.1	-2.1	0.0	1.4	1.6	Net Profit Margin	-66.6%	-30.1%	-1.4%	8.0%	7.1%
Significant items	0.0	0.0	-0.2	0.0	0.0	Asset Turnover	1.7	1.7	0.5	0.7	0.9
NPAT (Reported)	-3.1	-2.1	-0.2	1.4	1.6	ROA (%)	-110.2%	-50.0%	-0.7%	5.6%	6.1%
Gross Profit Margin (%)	64.2%	65.4%	66.0%	66.0%	66.0%	Financial Leverage	1.7	1.5	1.1	1.1	1.1
EBITDA Margin (%)	-49.8%	-23.3%	0.6%	8.1%	7.2%	ROE (%)	-182.3%	-76.9%	-0.7%	6.0%	6.5%
EBIT Margin (%)	-67.3%	-30.3%	0.3%	8.0%	7.1%	Balance Sheet ratios	2019A	2020A	2021F	2022F	2023F
NPAT Margin (%)	-66.6%	-30.1%	-1.4%	8.0%	7.1%	Net Debt (cash)	-1.4	-2.5	-21.6	-23.0	-24.7
Cash Flow (\$m)	2019A	2020A	2021F	2022F	2023F	NTA per share (\$)	0.0	0.0	0.0	0.0	0.0
Operating EBITDA	-2.3	-1.7	0.1	1.4	1.7	Price / NTA (x)	85.4	43.6	6.2	6.4	6.0
- Interest & Tax Paid	0.0	0.0	0.0	0.0	0.0	Shares on issue (m)	314.5	554.2	679.3	679.3	679.3
+/- change in Work. Cap.	0.5	-0.2	0.2	0.0	0.0	EFPOWA (m)	492.7	551.7	616.7	679.3	679.3
- other	0.0	0.0	0.0	0.0	0.0	Assumptions	2019A	2020A	2021F	2022F	2023F
Operating Cashflow	-1.8	-1.8	0.3	1.4	1.7	Revenue growth	-10.8%	50.5%	59.7%	55.3%	30.2%
- Other Capex	-0.1	0.0	0.0	0.0	0.0	Gross profit margin	64.2%	65.4%	66.0%	66.0%	66.0%
- Intangibles/other	0.0	0.0	0.0	0.0	0.0	Opex growth	8.0%	17.1%	17.8%	37.4%	32.3%
- Acquisitions	0.0	0.0	0.0	0.0	0.0	Users ('000)	288.0	431.0	660.1	859.7	1003.3
Free Cashflow	-1.9	-1.8	0.2	1.4	1.6	MSP (#)	204	318	430	530	630
- Ord Dividends	0.0	0.0	0.0	0.0	0.0	ARPU (A\$)	1.5	1.6	1.9	2.0	2.2
- Equity /other	0.0	2.9	19.0	0.0	0.0	ARR (A\$m)	5.1	8.5	15.2	21.0	26.0
Net Cashflow	-1.9	1.1	19.2	1.4	1.6	Interim Analysis	2H19A	1H20A	2H20A	1H21A	2H21A
Cash at beginning of period	3.5	1.4	2.4	21.6	23.0	Revenues	2.4	3.2	3.9	5.0	6.4
+/- borrowings / other	0.0	0.0	0.0	0.0	0.0	Gross profit	1.5	2.1	2.6	3.3	4.2
Cash at end of period	1.6	2.5	21.6	23.0	24.7	EBIT	-1.7	-1.3	-0.9	0.0	0.0
Balance Sheet	2019A	2020A	2021F	2022F	2023F	EBIT margin (%)	-70.5%	-38.7%	-22.9%	0.5%	0.3%
Cash	1.4	2.5	21.6	23.0	24.7	DPS	0.0	0.0	0.0	0.0	0.0
Debtors	0.8	1.4	1.8	1.8	1.8	Board of Directors / Substantial Shareholders					
Inventory	0.0	0.0	0.0	0.0	0.0	Board of Directors			Shareholding	%	
PPE	0.0	0.2	0.0	0.0	0.0	Theodore Hnarakis (NEC)			11.8	1.7%	
Intangibles	0.5	0.0	0.0	0.0	0.0	Charif Elansari (CEO)			29.5	4.3%	
Other assets	0.1	0.2	0.3	0.3	0.3	Dr Bruce Tonkin (NED)			1.5	0.2%	
Total Assets	2.9	4.3	23.7	25.1	26.8						
Deferred Revenue	0.1	0.1	0.2	0.2	0.2						
Trade Creditors	0.9	1.3	1.6	1.6	1.6						
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	1.1	1.5	1.9	1.9	1.9						
NET ASSETS	1.7	2.8	21.9	23.3	24.9						

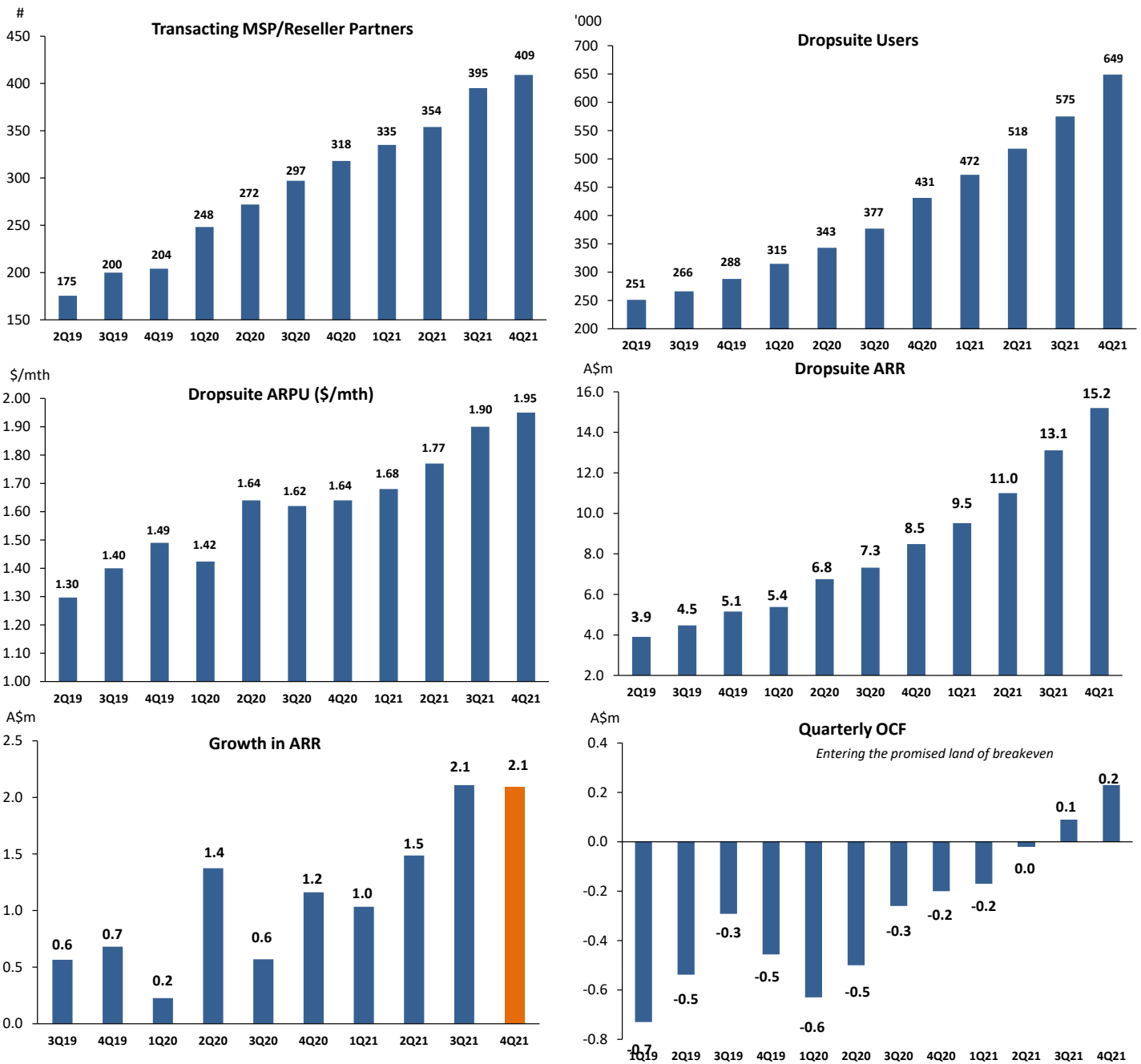
Source: Company reports, Canaccord Genuity estimates

Figure 2. CGe P&L and balance sheet

Profit & Loss		1H19A	2H19A	FY19A	1H20A	2H20A	FY20A	1H21A	2H21E	FY21E	1H22E	2H22E	FY22E	1H23E	2H23E	FY23E
Partners	#	175	204	204	272	318	318	335	430	430	480	530	530	580	630	630
New partners added	#		29		68	46	114	17	95	112	50	50	100	50	50	100
Users	'000	251	288	288	343	431	431	518	660	660	759	860	860	934	1003	1003
User Growth	'000		37.1		55.0	88.0	143.0	87.0	142.1	229.1	98.8	100.7	199.5	74.3	69.3	143.6
Users/partner	'000	1,430	1,412	1,412	1,261	1,355	1,355	1,546	1,500	1,535	1,581	1,622	1,622	1,610	1,592	1,592
ARPU	A\$/mth	1.30	1.49	1.49	1.64	1.64	1.64	1.77	1.92	1.92	1.98	2.04	2.04	2.10	2.16	2.16
ARR	A\$m	3.9	5.1	5.1	6.8	8.5	8.5	11.0	15.2	15.2	18.0	21.0	21.0	23.5	26.0	26.0
ARR growth	A\$m		1.2		1.6	1.7	3.3	2.5	4.2	6.7	2.8	3.0	5.8	2.5	2.5	5.0
Group Revenue	A\$m	2.3	2.4	4.7	3.2	3.9	7.1	5.0	6.4	11.3	8.1	9.5	17.6	10.9	12.1	22.9
COGS	A\$m	0.7	0.9	1.7	1.1	1.3	2.5	1.6	2.2	3.9	2.8	3.2	6.0	3.7	4.1	7.8
Gross Profit	A\$m	1.6	1.5	3.0	2.1	2.6	4.6	3.3	4.2	7.5	5.3	6.3	11.6	7.2	8.0	15.1
Gross profit margin	%	68%	61%	64%	65%	66%	65%	67%	65%	66%	66%	66%	66%	66%	66%	66%
Total Opex	A\$m	2.7	2.7	5.4	3.0	3.3	6.3	3.3	4.1	7.4	4.7	5.5	10.2	6.3	7.2	13.5
EBITDA	A\$m	-1.1	-1.3	-2.3	-0.9	-0.8	-1.7	0.0	0.0	0.1	0.6	0.8	1.4	0.9	0.8	1.7
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	0.0	0.0	0.0	0.0
EBIT	A\$m	-1.5	-1.7	-3.2	-1.3	-0.9	-2.2	0.0	0.0	0.0	0.6	0.8	1.4	0.9	0.7	1.6
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	0.0	0.0	0.6	0.8	1.4	0.9	0.7	1.6
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	-0.1	-0.2	0.6	0.8	1.4	0.9	0.7	1.6
Balance Sheet		1H19A	2H19A	FY19A	1H20A	2H20A	FY20A	1H21A	2H21E	FY21E	1H22E	2H22E	FY22E	1H23E	2H23E	FY23E
Cash	A\$m	0.0	0.0	1.4	3.0	2.5	2.5	2.4	21.4	21.6	22.2	23.0	23.0	23.9	24.7	24.7
Receivables	A\$m	0.0	0.0	0.8	1.2	1.4	1.4	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
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	23.5	23.7	24.3	25.1	25.1	26.0	26.8	26.8
Payables	A\$m	0.0	0.0	0.9	1.0	1.3	1.3	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
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	0.2	0.2	0.2	0.2	0.2	0.2	0.2
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	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Equity	A\$m	0.0	0.0	1.8	3.4	2.5	2.5	2.7	21.7	21.7	22.3	23.1	23.1	24.0	24.7	24.7
ROE	%			-174.9%	-74.0%	-69.9%	-84.4%	-5.3%	-0.8%	-0.7%	2.6%	3.5%	6.1%	3.7%	3.0%	6.6%
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	2H21E	FY21E	1H22E	2H22E	FY22E	1H23E	2H23E	FY23E
EBITDA	A\$m	-1.1	-1.3	-2.3	-0.9	-0.8	-1.7	0.0	0.0	0.1	0.6	0.8	1.4	0.9	0.8	1.7
Working Capital	A\$m	1.1	1.3	0.5	-0.4	0.3	-0.2	-0.1	0.0	0.2	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	0.0	0.3	0.6	0.8	1.4	0.9	0.8	1.7
PPE	A\$m	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issue of securities	A\$m	0.0	0.0	0.0	2.9	0.0	2.9	0.0	19.0	19.0	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	19.0	19.0	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	19.0	19.2	0.6	0.8	1.4	0.9	0.7	1.6
Cash at beginning of period	A\$m	0.0	0.0	3.2	1.4	2.9	1.3	2.5	2.4	2.4	21.6	22.2	21.6	23.0	23.9	23.0
Cash at end of period	A\$m	0.0	0.0	1.4	3.0	2.4	2.4	2.4	21.4	21.6	22.2	23.0	23.0	23.9	24.7	24.7

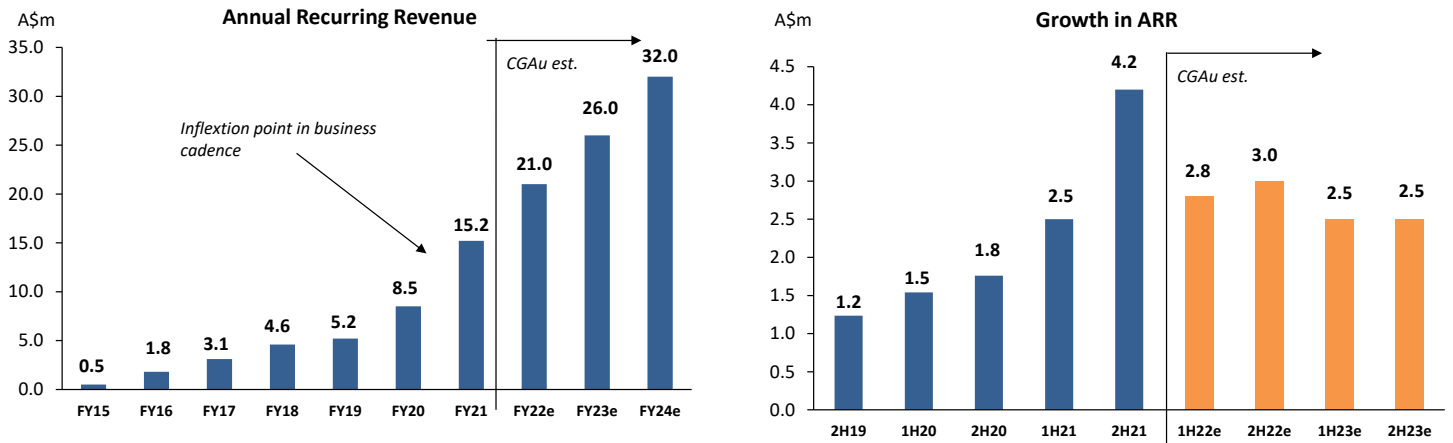
Source: Company reports, Canaccord Genuity estimates

Figure 3: Key growth in operating metrics



Source: Company reports

Figure 4: Breakout year for DSE



Source: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: January 19, 2022, 01:13 ET

Date and time of production: January 19, 2022, 01:13 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 01/19/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	664	69.31%	44.13%
Hold	133	13.88%	27.07%
Sell	8	0.84%	37.50%
Speculative Buy	150	15.66%	56.67%
	958*	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.

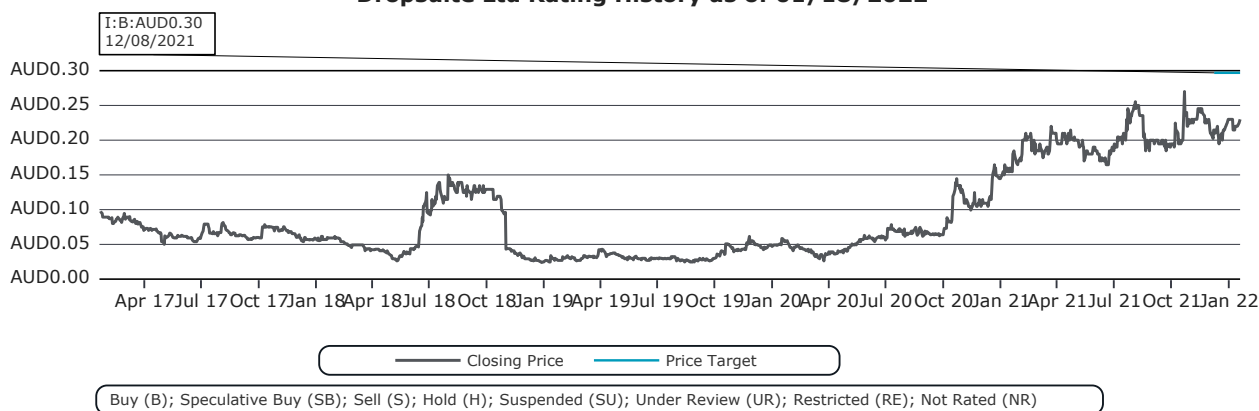
12-Month Recommendation History (as of date same as the Global Stock Ratings table)

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 01/18/2022



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