

25 October 2021

Dropsuite Limited (DSE)

Buy

Share Price: A\$0.24

Good results continue – CY21Q3 4C

Target Price: A\$0.35

The strong result bolsters our confidence that the business model is primed for continued growth. We have upgraded our outer year EBITDA forecasts and pulled back our near term expectations, as the business invests for growth. Given the strong net cash position, we expect accretive acquisitions in the near term. We reiterate our Buy recommendation and increase our target price to \$0.35.

Key Points from Announcement

- ARR continues to grow exponentially (+79% pcp) to \$13.1m and is on track to achieve our CY22F.
- End-users grew to 575k (+53% pcp) and ARPU increased +19% to US\$1.39, as customers continue to adopt the higher value products.
- This has led to the achievement of the first quarter of positive operational cash flow for the company, a significant development milestone.

Strong outlook for CY21 and beyond

- DSE is benefitting from a strong industry tailwind as the market for global data backup and recovery is growing at 24% CAGR over the next few years.
- The number of Microsoft 365 and Google Workspace users is expected to increase from 350m in 2020 to 570m in 2026.
- This provides DSE with a significant growth pipeline as its penetration of these expanding customer bases increases (currently 0.15% with ~0.5m users).
- In addition the establishment of a reseller network consisting of 395 partners globally will allow the business to expand revenue and users from this channel at a minimal cost to serve.

Forecasts

- With users, ARPU and ARR increasing significantly, the company is investing more in sales and marketing, which is correct given the substantial growth potential.
- As a result we have increased our near term opex forecasts to reflect increased investment.
- We have upgraded our outer year EBITDA forecasts significantly on the back on this enhanced investment.

Valuation

- Due to Improving operational metrics, coupled with strong cash flow and an expanding opportunity set for direct and channel sales, we have increased our confidence in DSE's sales growth outlook.
- As a result, we have increased our target price to A\$0.35 and reiterate our Buy recommendation.

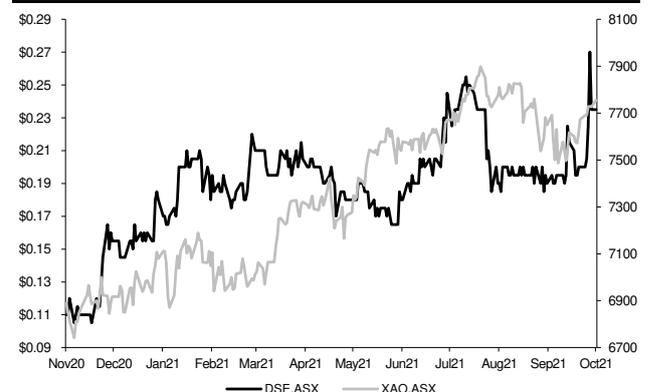
Company Data

Shares – ordinary (M)	681.9
Dilution (M)	17.2
Total (fully diluted) (M)	699.1
Market capitalisation (\$M)	160.2
12 month low/high (\$)	0.106 / 0.28
Average monthly turnover (\$M)	5.8
GICS Industry	Software

Financial Summary (fully diluted/normalised)

Year end December	2019A	2020A	2021F	2022F	2023F
Revenue (\$M)	4.7	7.1	11.6	18.7	26.3
Costs (\$M)	(7.1)	(8.8)	(11.3)	(16.7)	(21.3)
EBITDA (\$M)	(2.4)	(1.7)	0.3	2.0	5.0
NPAT (\$M)	(3.2)	(2.3)	0.3	2.0	5.0
EPS (cps)	(0.6)	(0.4)	0.0	0.3	0.7
EPS Growth (%)	-136%	39%	>100%	606%	152%
PER (x)	n/a	n/a	574.5	81.4	32.3
Free cash flow (\$M)	(2.0)	1.1	20.1	1.5	4.4
FCFPS (cps)	(0.4)	0.2	3.5	0.2	0.7
PFCFPS (x)	(57.3)	106.6	6.6	107.2	36.1
Enterprise Value (\$M)	24.0	76.5	113.0	136.4	136.4
EV / Sales (x)	5.1	10.8	9.7	7.3	5.2
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividends (cps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

DSE – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

Analysis

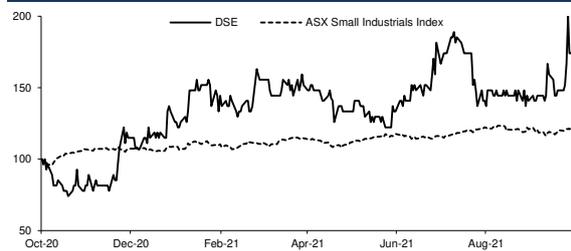
Dropsuite Limited

Year end December

MARKET DATA

Recommendation		Buy
Price	\$	23.5
Target Price (12-month)	\$	35.0
52 week high / low	\$	27 / 10
Market capitalisation (quoted)	\$m	160.2
Shares on issue (quoted)	no.	681.9
Options / Rights in the money	no.	17.2
Other equity	no.	-
Shares on issue (diluted)	no.	699.1

12-MONTH SHARE PRICE RELATIVE PERFORMANCE



INVESTMENT FUNDAMENTALS

	CY19A	CY20A	CY21F	CY22F	CY23F
Reported EPS (undiluted)	¢ (0.6)	(0.4)	0.0	0.3	0.7
....Growth	% (110)	39	>100%	606	152
EPS Underlying	¢ (0.6)	(0.4)	0.0	0.3	0.7
EPS Underlying (diluted)	¢ (0.6)	(0.4)	0.0	0.3	0.7
PER Underlying (diluted)	x (38)	(62)	589	83	33
Operating cash flow per share	¢ (0.4)	(0.4)	0.0	0.2	0.7
Free cash flow per share	¢ (0.4)	(0.4)	0.0	0.2	0.6
Price to free cash flow	x (11.6)	(41.9)	n/a	91.5	30.8
Free cash flow yield	% -9%	-2%	0%	1%	3%
Book value per share	¢ 0.4	0.5	4.1	3.7	4.4
Price to book	x 13.4	28.9	4.9	5.5	4.6
Net tangible assets per share	¢ 0.3	0.5	4.1	3.7	4.4
Price to NTA	x 17.9	28.9	4.9	5.5	4.6

Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout ratio	%	0.0	0.0	0.0	0.0	0.0
Yield (Y/E/ spot)	%	0.0	0.0	0.0	0.0	0.0
Franking	%	n/m	n/m	n/m	n/m	n/m
Gross Yield (Y/E/ spot)	%	0.0	0.0	0.0	0.0	0.0
Net debt /(cash)	\$m	(1.4)	(2.5)	(22.5)	(24.0)	(28.4)
Enterprise value	\$m	24.0	76.5	113.0	136.4	136.4
EV/Sales	x	5.1	10.9	9.7	7.3	5.2
EV/EBITDA	x	(10.2)	(46.3)	n/a	68.2	27.3

KEY RATIOS

	CY19A	CY20A	CY21F	CY22F	CY23F
EBITDA margin	% n/a	n/a	2.6	10.7	19.0
EBIT margin	% n/a	n/a	2.4	10.6	18.9
NPAT margin	% n/a	n/a	2.4	10.6	18.9
ROE (Average Equity)	% (93.9)	(103.4)	2.4	8.2	18.1
ROA (EBIT)	% (74.1)	(62.1)	1.9	7.4	16.2
Interest cover (EBIT / net interest)	x n/m	n/m	n/m	n/m	n/m
Leverage (net debt / EBITDA)	x n/m	n/m	n/m	n/m	n/m
Gearing (net debt / (net debt+equity))	x 0.0	0.0	0.0	0.0	0.0

DUPONT ANALYSIS

	CY19A	CY20A	CY21F	CY22F	CY23F
NPAT margin	% n/a	n/a	2.4	10.6	18.9
Asset Turnover	x 1.1	2.0	0.8	0.7	0.9
Return on Assets (NPAT)	% n/a	n/a	1.9	7.4	16.2
Financial Leverage	x 1.6	1.5	1.1	1.1	1.1
Return on Equity	% n/a	n/a	2.1	8.3	18.2

INTERIM SUMMARY

	20H1A	20H2A	21H1A	21H2F	22H1F
Total revenue	\$m 3.2	3.9	5.0	6.7	8.4
Operating expenses	\$m (4.1)	(4.6)	(5.0)	(6.3)	(8.0)
EBITDA	\$m (0.9)	(0.8)	(0.1)	0.4	0.4
Depreciation & amortisation	\$m (0.4)	(0.1)	(0.0)	(0.0)	(0.0)
EBIT	\$m (1.3)	(0.9)	(0.1)	0.4	0.4
Net interest	\$m 0.0	0.0	0.0	0.0	0.0
Pretax profit	\$m (1.3)	(0.9)	(0.1)	0.4	0.4
Tax expense	\$m 0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (1.3)	(0.9)	(0.1)	0.4	0.4
Dividend	¢ 0.0	0.0	0.0	0.0	0.0

PROFIT AND LOSS

	CY19A	CY20A	CY21F	CY22F	CY23F
Sales Revenue	\$m 4.7	7.0	11.6	18.7	26.3
Other Income	\$m 0.0	0.1	0.0	0.0	0.0
Total Revenue	\$m 4.7	7.1	11.6	18.7	26.3
Operating costs	\$m (7.1)	(8.8)	(11.3)	(16.7)	(21.3)
EBITDA	\$m (2.4)	(1.7)	0.3	2.0	5.0
Depreciation & amortisation	\$m (0.8)	(0.5)	(0.0)	(0.0)	(0.0)
EBIT	\$m (3.2)	(2.2)	0.3	2.0	5.0
Net interest	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (3.1)	(2.1)	0.3	2.0	5.0
Tax expense	\$m 0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (3.1)	(2.1)	0.3	2.0	5.0
Adjustments	\$m (0.0)	(0.2)	0.0	0.0	0.0
Reported NPAT	\$m (3.2)	(2.3)	0.3	2.0	5.0

BALANCE SHEET

	CY19A	CY20A	CY21F	CY22F	CY23F
Cash	\$m 1.4	2.5	22.5	24.0	28.4
Receivables	\$m 0.8	1.4	2.2	3.4	4.8
Other	\$m 0.1	0.1	0.3	0.3	0.3
Current	\$m 2.3	4.0	25.0	27.7	33.5
PPE	\$m 0.0	0.0	0.1	0.1	0.1
Intangibles	\$m 0.5	0.0	0.0	0.0	0.0
Other	\$m 0.1	0.1	0.1	0.1	0.1
Non current	\$m 0.6	0.1	0.1	0.1	0.1
Total Assets	\$m 2.9	4.1	25.1	27.8	33.7
Accounts Payable	\$m 1.0	1.3	1.7	2.3	3.0
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.1	0.1	0.3	0.4	0.6
Current	\$m 1.0	1.4	2.0	2.8	3.6
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Lease Liabilities	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.1	0.1	0.1	0.1	0.1
Non current	\$m 0.1	0.1	0.1	0.1	0.1
Total Liabilities	\$m 1.1	1.4	2.1	2.8	3.7
Equity	\$m 21.1	24.3	44.3	44.3	44.3
Retained earnings	\$m (19.4)	(21.6)	(21.3)	(19.3)	(14.4)
Reserves / Other	\$m 0.1	(0.0)	0.1	0.1	0.1
Shareholder's equity	\$m 1.8	2.6	23.0	25.0	29.9

CASH FLOW

	CY19A	CY20A	CY21F	CY22F	CY23F
EBITDA	\$m (2.4)	(1.7)	0.3	2.0	5.0
Change in working capital	\$m 0.4	(0.0)	19.6	(0.5)	(0.5)
Net interest	\$m 0.0	0.0	0.0	0.0	0.0
Tax paid	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m (0.0)	(0.2)	(19.9)	(0.0)	(0.0)
Operating cash flow	\$m (2.0)	(1.8)	0.1	1.5	4.4
Capex	\$m (0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m (0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Change in Equity	\$m 0.0	2.9	20.0	0.0	0.0
Increase / (decrease) in borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Dividend / Other	\$m 0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m 0.0	2.9	20.0	0.0	0.0
Free cash flow	\$m (2.1)	(1.8)	0.0	1.5	4.4

wSource: Petra Capital

Petra Capital
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Hugh Stackpool	+61 (0)2 9239 9625	hstackpool@petracapital.com.au
Research (Resources):	David Brennan	+61 (0)2 9239 9630	dbrennan@petracapital.com.au
Research (Resources):	Andrew Harrington	+61 (0)2 9239 9614	aharrington@petracapital.com.au
Research (Resources):	Kieran Barratt	+61 (0)2 9239 9610	kbarratt@petracapital.com.au
Research (Resources):	Colin McLelland	+61 (0)2 9239 9639	cmcllland@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Nathan Goldschmidt	+61 (0)2 9239 9633	ngoldschmidt@petracapital.com.au
Research (Industrials):	Ken Wagner	+61 (0)2 9239 9642	kwagner@petracapital.com.au
Research (Industrials):	Daniel Ireland	+61 (0)2 9239 9647	direland@petracapital.com.au
Research (Industrials):	Mark Yarwood	+61 (0)2 9239 9646	myarwood@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Leigh Gardner	+61 (0)2 9239 9620	lgardner@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Paul Doherty	+61 (0)407 194 549	pdoherly@petracapital.com.au
Sales:	Darren Sheppard	+61 (0)417 039 647	dshppard@petracapital.com.au
Sales:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Ben Parisek	+61 (0)2 9239 9640	bparisek@petracapital.com.au
Sales:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Corporate (ECM):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Administration:	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Administration:	Nicole Sarapata	+61 (0)2 9239 9635	nsarapata@petracapital.com.au
Administration:	Jessica Christman	+61 (0)2 9239 9624	jchristman@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Emma Pagalday	+61 (0)2 9239 9621	epagalday@petracapital.com.au
Legal & Compliance:	Danielle Smith	+61 (0)2 9239 9612	dsmith@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX and Chi-X Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent.

Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>. Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

US Investors

This material is intended for use in the US only by major US Institutional Investors, as that term is defined by the SEC Rule 15a-6. Transactions with US Institutional Investors and major US Institutional Investors, as those terms are defined by SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC, ("Global Alliance"), a SEC-registered broker-dealer and FINRA member (web: www.globalalliancecurities.com) in accordance with the agreement between Global Alliance and Petra Capital Pty Ltd. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.