

17 October 2023

Dropsuite Limited (DSE)

BUY

Share Price: **A\$0.24**

Another solid quarter

Target Price: **A\$0.32**

DSE has delivered another solid quarterly result, with continued growth in paid users and ARPU combining with a weaker AUD/USD to deliver an ARR uplift of 44% on pcp and a record Op. CF. We expect this momentum to continue, buoyed by strong market demand, market share gains, new product releases, and potential M&A. We reiterate our Buy rating and new TP of \$0.32ps.

Another solid quarter, with Op. CF the standout

- DSE has reported another solid quarter, with increased paid users continuing to combine with higher ARPU to drive 3Q24 ARR to A\$33.4m, up 44% on pcp. In USD terms, the ARR increased 37% on pcp to \$21.5m.
- While 3Q23 was a relatively weak growth period for net paid users, this was due to the ongoing de-activation of a legacy partner. On a gross basis, DSE is adding ~80k new customers (~7.5% growth) per quarter YTD CY23.
- DSE kept its GP margin within its target range at 68%. While the extent of any operating leverage in 3Q23 is unclear, DSE did report a record quarterly Op. CF, due in part to timing, and is guiding to a lower figure in 4Q23.

Positive outlook intact

- DSE's positive outlook remains intact, with its (i) partner churn at <3%, and the de-activation of its legacy users on track to complete in 4Q23, (ii) share of global MSPs still <3%, and (iii) new products in the pipeline.
- DSE also remains well placed to supplement its organic growth strategy with acquisitions by utilising its net cash balance of \$25m. While WIP, DSE has confirmed that it is still actively looking at targeted opportunities.

Modest upward revision to earnings forecasts

- We have lifted our EPS estimate for CY23, CY24, and CY25 by 2%, respectively. The key drivers are (i) slightly lower annual growth in net paid users, and (ii) a constant AUD/USD exchange rate of 0.64 (previously 0.67).

Reiterate Buy and lift TP to \$0.32ps (from \$0.31ps)

- We believe DSE has the products, business model and capital to exceed system growth (~25% p.a.) within its target market (data back-up and archiving) over the next several years.
- Given DSE's ability to leverage its strong balance sheet to supplement what we expect to be a strong multi-year organic growth profile with M&A, we reiterate our Buy rating and lift our TP to \$0.32ps (from \$0.31ps).
- Consistent with DSE's partner-led business model and growth strategy, the key share price catalysts include (i) continued growth in ARR in excess of reinvestments, (ii) product innovation, and (iii) strategic M&A.

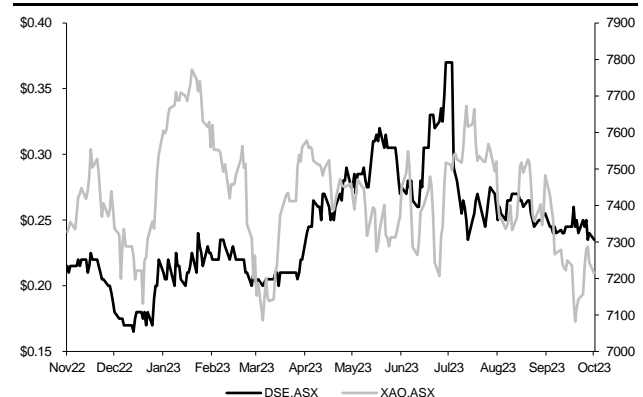
Company Data

Shares – ordinary (M)	696.1
Dilution (M)	14.5
Total (fully diluted) (M)	710.6
Market capitalisation (\$M)	163.6
12-month low/high (\$)	0.16 - 0.39
Average monthly turnover (\$M)	2.7
GICS Industry	Software

Financial Summary (fully diluted/normalised)

Year End	December	2021A	2022A	2023F	2024F	2025F
Revenue (A\$m)		11.7	20.7	31.1	41.8	51.9
Costs (A\$m)		11.7	19.4	28.9	38.8	46.1
EBITDA (A\$m)		0.0	1.3	2.1	3.0	5.8
NPAT (A\$m)		0.0	1.5	2.0	2.7	4.8
EPS (¢)		0.0	0.2	0.3	0.4	0.7
EPS Growth (%)		98.7	>100.0	35.5	33.3	72.8
PER (x)		nm	113.2	82.7	61.4	35.5
FCF (A\$m)		0.2	0.9	2.1	1.8	4.6
FCF per share (cps)		0.0	0.1	0.3	0.3	0.6
Price to FCF (x)		752.1	193.2	78.1	92.5	36.9
EV (A\$m)		133.8	142.1	143.3	141.2	139.4
EV/EBITDA		nm	113.6	66.9	46.8	24.0
Payout ratio (%)		0.0	0.0	0.0	0.0	0.0
Dividend (¢)		0.0	0.0	0.0	0.0	0.0
Net 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.

James Lennon
+61 2 9239 9618

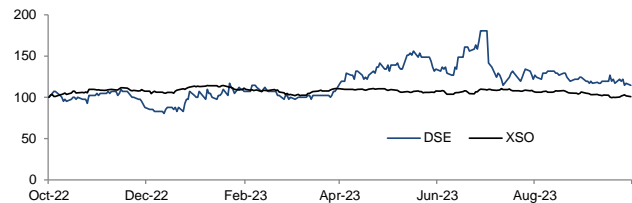
Analysis

Dropsuite Year End December

MARKET DATA

Recommendation		Buy
Price	A\$	0.24
Price target (12-month)	A\$	0.32
52 week high / low	A\$	0.16 - 0.39
Market capitalisation	A\$m	163.6
Shares on issue (basic)	no.	696.1
Performance rights	no.	14.5
Other equity	no.	0.0
Shares on issue (diluted)	no.	710.6

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	2021A	2022A	2023F	2024F	2025F	
Underlying net profit	\$m	(0.0)	1.5	2.0	2.7	4.8
Reported net profit	\$m	(0.0)	1.5	2.0	2.7	4.8
Reported EPS (diluted)	¢	(0.0)	0.2	0.3	0.4	0.7
Normalised EPS (diluted)	¢	(0.0)	0.2	0.3	0.4	0.7
....Growth	%	98.7	>100.0	35.5	33.3	72.8
Normalised diluted PER	x	nm	113.2	82.7	61.4	35.5
Adjusted Op. CF per share	¢	0.0	0.1	0.3	0.3	0.6
Adjusted FCF per share	¢	0.0	0.1	0.3	0.3	0.6
Price to free cash flow per share	x	752.1	193.2	78.1	92.5	36.9
Free cash flow yield	%	0.1	0.5	1.3	1.1	2.7

	2021A	2022A	2023F	2024F	2025F	
Dividend per share	¢	0.0	0.0	0.0	0.0	0.0
Payout ratio	%	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

	2021A	2022A	2023F	2024F	2025F	
Enterprise value	\$m	133.8	142.1	143.3	141.2	139.4
EV/EBITDA	x	nm	113.6	66.9	46.8	24.0
EV/EBIT	x	nm	119.3	69.4	48.1	24.4
Price to book (NAV)	x	7.3	6.7	5.8	5.1	4.3
Price to NTA	x	7.3	6.7	5.8	5.1	4.3

KEY RATIOS

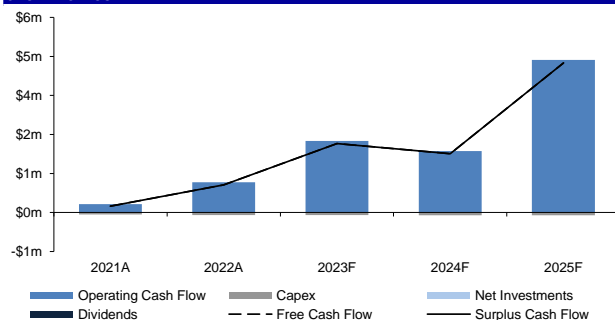
	2021A	2022A	2023F	2024F	2025F	
EBITDA margin	%	0.0	6.0	6.9	7.2	11.2
EBIT margin	%	(0.3)	5.8	6.7	7.0	11.0
Underlying net profit margin	%	(0.3)	7.0	6.4	6.5	9.2
Return on average equity	%	16.4	17.7	17.7	17.4	16.5
Return on average assets	%	16.7	18.3	18.5	18.2	17.5

	2021A	2022A	2023F	2024F	2025F	
Net tangible assets per share	¢	3.2	3.5	4.0	4.6	5.5
Net debt /(cash)	\$m	(21.6)	(22.3)	(25.8)	(29.5)	(36.2)
Interest cover (EBIT / net interest)	x	n/a	n/a	n/a	n/a	n/a
Leverage (net debt / EBITDA)	x	n/a	n/a	n/a	n/a	n/a
Gearing (net debt / net debt plus equity)	%	n/a	n/a	n/a	n/a	n/a

DUPONT ANALYSIS

	2021A	2022A	2023F	2024F	2025F	
Net Profit Margin	%	11.9	14.2	15.9	17.6	18.8
Asset Turnover	x	1.1	1.0	0.9	0.8	0.8
Return on Assets	%	13.7	14.9	15.0	14.9	14.4
Financial Leverage	x	1.2	1.2	1.2	1.2	1.1
Return on Equity	%	16.4	17.7	17.7	17.4	16.5

CASH FLOW SUMMARY



PROFIT AND LOSS

	2021A	2022A	2023F	2024F	2025F	
Total revenue	\$m	11.7	20.7	31.1	41.8	51.9
EBITDA	\$m	0.0	1.3	2.1	3.0	5.8
Depreciation & amortisation	\$m	0.0	0.1	0.1	0.1	0.1
EBIT	\$m	(0.0)	1.2	2.1	2.9	5.7
Net interest	\$m	(0.0)	(0.3)	(0.6)	(0.7)	(0.7)
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	(0.0)	1.5	2.7	3.6	6.4
Tax expense	\$m	0.0	0.0	0.7	0.9	1.6
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	(0.0)	1.5	2.0	2.7	4.8
Significant items	\$m	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m	(0.0)	1.5	2.0	2.7	4.8

GROWTH PROFILE

	2021A	2022A	2023F	2024F	2025F	
Operating revenue	%	64.6	76.8	50.1	34.5	24.3
EBITDA	%	>100.0	>100.0	71.2	40.8	92.4
EBIT	%	98.4	>100.0	73.4	42.2	94.8
Operating NPAT	%	98.5	>100.0	38.0	36.0	75.8
Normalised EPS	%	98.7	>100.0	35.5	33.3	72.8
DPS	%	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

	2021A	2022A	2023F	2024F	2025F	
Cash	\$m	21.6	22.3	25.8	29.5	36.2
Receivables	\$m	2.2	4.1	5.9	8.4	10.4
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.2	0.4	0.7	0.7	0.7
Current	\$m	24.0	26.8	32.4	38.5	47.3
Prop, plant & equip	\$m	0.0	0.1	0.1	0.1	0.1
Goodwill	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.1	0.1	0.3	0.3	0.3
Non current	\$m	0.1	0.1	0.4	0.4	0.4
Total assets	\$m	24.1	26.9	32.8	38.9	47.7
Accounts Payable	\$m	2.0	2.5	3.9	5.2	6.5
Borrowings	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.2	0.2	0.6	0.8	1.4
Total liabilities	\$m	2.2	2.7	4.5	6.0	7.9
Net assets	\$m	21.9	24.2	28.3	32.9	39.8
Equity	\$m	21.9	24.2	28.3	32.9	39.8
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m	21.9	24.2	28.3	32.9	39.8
Shares on issue	m	681.9	689.9	702.9	718.4	727.5

CASH FLOW

	2021A	2022A	2023F	2024F	2025F	
EBITDA	\$m	0.0	1.3	2.1	3.0	5.8
Change in working capital	\$m	(0.0)	(1.4)	(0.4)	(1.1)	(0.8)
Net interest	\$m	0.0	0.2	0.6	0.7	0.7
Tax paid	\$m	0.0	0.0	(0.1)	(0.7)	(1.0)
Other	\$m	0.3	0.9	0.0	0.0	0.0
Operating cash flow	\$m	0.3	0.9	2.2	1.9	4.7
Capital expenditure	\$m	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Acquisitions/divestment/other	\$m	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Free cash flow	\$m	0.2	0.9	2.1	1.8	4.6
Equity	\$m	18.9	0.0	1.4	1.8	2.1
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	18.9	0.0	1.4	1.8	2.1
Net cash flow	\$m	19.1	0.9	3.5	3.6	6.7

Source: Petra Capital



17 October 2023

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

Petra Capital

 Level 17, 14 Martin Place, Sydney NSW 2000 Office: +61 2 9239 9600
 Level 5, 1 Collins Street, Melbourne VIC 3000 Office: +61 3 9123 3000

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 (Resources):	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Research (Industrials):	Liam Cummins	+61 (0)2 9239 9607	lcummins@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Sam Haddad	+61 (0)2 9239 9633	shaddad@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
Research (Healthcare):	Tanushree Jain	+61 (0)2 9239 9649	tjain@petracapital.com.au
Research (Industrials):	Joanne Condopoulos	+61 (0)2 9239 9635	jcondopoulos@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)400 740 842	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:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Andrew Richards	+61 (0)2 9239 9638	arichards@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Denise Wong	+61 (0)2 9239 9650	dwong@petracapital.com.au
Sales:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Sales:	Stacey Dinnage	+61 (0)425 764 907	sdinnage@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Corporate (ECM):	Maureen Baker	+61 (0)438 571 970	mbaker@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@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 re-rate by more than 5% in 12 months; Hold - Forecast to perform up to 5% above or below the current market price in 12 months, or alternatively, where a share price exceeds Petra Capital's valuation but there is a belief that business growth opportunities or commodity price moves, may result in material valuation and share price upside within 12 months; Sell - Forecast to underperform by more than 5% in 12 months; 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.

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.globalalliancesecurities.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.