

20 January 2023

Dropsuite Limited (DSE)**BUY****Share Price: A\$0.22****Backing up with another solid quarter of ARR growth****Target Price:****A\$0.32**

DSE's reported operating metrics for 4Q22 are in line with our forecasts despite the stronger-than-expected AUD and point to continued growth in CY23. While our earnings estimates have increased marginally, the key swing factors remain net users and operating leverage, the latter of which depends in part on the extent and timing of any growth opex. Reiterate Buy and \$0.32 TP.

Strong operating metrics for 4Q22

- DSE has reported another strong quarter of growth, with the key USD denominated ARR metric increasing 10% sequentially and 58% on pcp to \$17.2m. This translated to A\$25.4m at the stated exchange rate of 67¢.
- Consistent with recent periods, the growth in constant currency (CC) ARR reflects a combination of favourable industry tailwinds and DSE's investment in product, and sales and marketing.
- To this end, net users increased 6% sequentially and 44% on pcp to 935k (versus our estimate of 952k), while monthly ARPU increased 4% sequentially and 9% on pcp to US\$1.53 (versus our estimate of US\$1.51).
- While the AUD/USD exchange rate and GP margin for 4Q22 were both above our expectations (67¢ versus 63¢ estimate, and 70% versus 65% estimate), Op. CF was slightly weaker than expected, but still positive.

Momentum expected to continue in CY23

- While no explicit guidance was provided, management expects DSE to continue delivering ARR growth, remain profitable and cash flow positive, continue to invest in product development and sales, and pursue M&A.

Upward revision to earnings estimates

- We have increased our EPS estimate for CY22, CY23 and CY24 by 2%, 1%, and 1%, respectively. Key driver is a higher GP margin, reflecting optimisation of cloud storage cost and mix shift to higher ARPU products.
- Importantly, while our base case is for DSE's operating leverage to increase over the medium-term, how quickly this expectation eventuates will depend in part on the extent to which management prioritises growth opex.

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

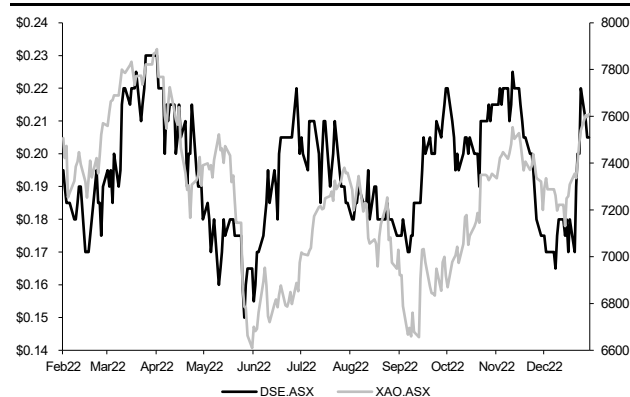
- We believe DSE has the products, business model and capital to exceed system growth (~25% p.a.) within its target market (data back-up and archiving) over the next several years.
- Given DSE's ability to leverage its strong balance sheet to supplement what we expect to be a strong multi-year organic growth profile with M&A, we reiterate our Buy rating with a new DCF-based TP of \$0.32ps.

Company Data

Shares – ordinary (M)	683.2
Dilution (M)	12.1
Total (fully diluted) (M)	695.3
Market capitalisation (\$M)	150.3
12-month low/high (\$)	0.15 - 0.24
Average monthly turnover (\$M)	3.0
GICS Industry	Software

Financial Summary (fully diluted/normalised)

Year End December	2020A	2021A	2022F	2023F	2024F
Revenue (A\$m)	7.1	11.7	20.6	31.9	43.1
Costs (A\$m)	8.8	11.7	19.3	27.9	36.9
EBITDA (A\$m)	-1.7	0.0	1.3	3.9	6.2
NPAT (A\$m)	-2.1	0.0	1.1	3.1	4.9
EPS (¢)	-0.4	0.0	0.2	0.4	0.7
EPS Growth (%)	nm	98.7	>100.0	>100.0	55.6
PER (x)	nm	nm	138.1	49.3	31.5
FCF (A\$m)	-1.9	0.2	0.4	4.5	5.3
FCF per share (cps)	-0.3	0.0	0.1	0.6	0.8
Price to FCF (x)	-66.0	701.0	366.5	34.1	29.2
EV (A\$m)	120.9	124.5	131.1	130.7	126.2
EV/EBITDA	nm	nm	101.8	33.5	20.3
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

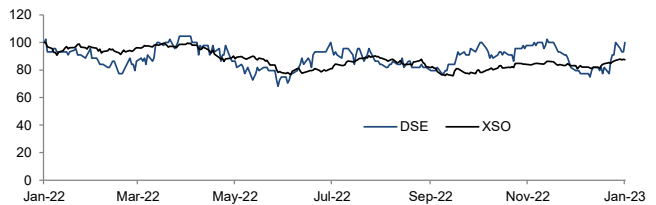
Analysis

Dropsuite Year End December

MARKET DATA

Recommendation		Buy
Price	A\$	0.22
Price target (12-month)	A\$	0.32
52 week high / low		0.15 - 0.24
Market capitalisation	A\$m	150.3
Shares on issue (basic)	no.	683.2
Performance rights	no.	12.1
Other equity	no.	0.0
Shares on issue (diluted)	no.	695.3

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	2020A	2021A	2022F	2023F	2024F
Underlying net profit	\$m (2.1)	(0.0)	1.1	3.1	4.9
Reported net profit	\$m (2.1)	(0.0)	1.1	3.1	4.9
Reported EPS (diluted)	¢ (0.4)	(0.0)	0.2	0.4	0.7
Normalised EPS (diluted)	¢ (0.4)	(0.0)	0.2	0.4	0.7
....Growth	% nm	98.7	>100.0	>100.0	55.6
Normalised diluted PER	x nm	nm	138.1	49.3	31.5
Adjusted Op. CF per share	¢ (0.3)	0.0	0.1	0.6	0.8
Adjusted FCF per share	¢ (0.3)	0.0	0.1	0.6	0.8
Price to free cash flow per share	x (66.0)	701.0	366.5	34.1	29.2
Free cash flow yield	% (1.5)	0.1	0.3	2.9	3.4

PROFIT AND LOSS

	2020A	2021A	2022F	2023F	2024F
Total revenue	\$m 7.1	11.7	20.6	31.9	43.1
EBITDA	\$m (1.7)	0.0	1.3	3.9	6.2
Depreciation & amortisation	\$m 0.5	0.0	0.0	0.0	0.0
EBIT	\$m (2.2)	(0.0)	1.3	3.9	6.2
Net interest	\$m (0.0)	(0.0)	(0.2)	(0.2)	(0.3)
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (2.1)	(0.0)	1.5	4.1	6.5
Tax expense	\$m 0.0	0.0	0.4	1.0	1.6
Minorities	\$m 0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m (2.1)	(0.0)	1.1	3.1	4.9
Significant items	\$m 0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (2.1)	(0.0)	1.1	3.1	4.9

Dividend per share

	2020A	2021A	2022F	2023F	2024F
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

Enterprise value

	2020A	2021A	2022F	2023F	2024F
EV/EBITDA	x nm	nm	101.8	33.5	20.3
EV/EBIT	x nm	nm	104.4	33.8	20.4
Price to book (NAV)	x 47.0	6.8	6.5	5.7	4.8
Price to NTA	x 47.0	6.8	6.5	5.7	4.8

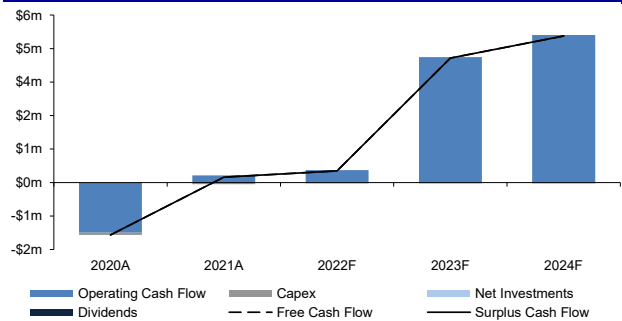
KEY RATIOS

	2020A	2021A	2022F	2023F	2024F
EBITDA margin	% (23.3)	0.0	6.2	12.3	14.4
EBIT margin	% (30.4)	(0.3)	6.1	12.2	14.4
Underlying net profit margin	% (30.2)	(0.3)	5.4	9.7	11.3
Return on average equity	% 20.2	22.0	22.0	21.0	19.8
Return on average assets	% 20.2	22.0	22.4	21.7	20.9
Net tangible assets per share	¢ 0.5	3.2	3.4	3.9	4.6
Net debt /(cash)	\$m (2.5)	(21.6)	(22.3)	(27.2)	(33.0)
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

	2020A	2021A	2022F	2023F	2024F
Net Profit Margin	% 13.7	15.9	17.7	19.0	20.3
Asset Turnover	x 1.1	1.1	1.0	0.9	0.8
Return on Assets	% 15.7	17.1	17.4	16.9	16.3
Financial Leverage	x 1.3	1.3	1.3	1.2	1.2
Return on Equity	% 20.2	22.0	22.0	21.0	19.8

CASH FLOW SUMMARY



GROWTH PROFILE

	2020A	2021A	2022F	2023F	2024F
Operating revenue	% 0.0	64.6	76.1	54.6	35.3
EBITDA	% 0.0	>100.0	>100.0	>100.0	59.3
EBIT	% 0.0	98.4	>100.0	>100.0	59.7
Operating NPAT	% 0.0	98.5	>100.0	>100.0	57.4
Normalised EPS	% nm	98.7	>100.0	>100.0	55.6
DPS	% 0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

	2020A	2021A	2022F	2023F	2024F
Cash	\$m 2.5	21.6	22.3	27.2	33.0
Receivables	\$m 1.4	2.2	3.6	5.9	8.0
Inventory	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.1	0.2	0.2	0.2	0.2
Current	\$m 4.0	24.0	26.2	33.3	41.2
Prop. plant & equip	\$m 0.0	0.0	0.0	0.1	0.1
Goodwill	\$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 assets	\$m 4.1	24.1	26.3	33.4	41.3
Accounts Payable	\$m 1.3	2.0	2.5	5.6	7.5
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.1	0.2	0.5	1.1	1.6
Total liabilities	\$m 1.4	2.2	3.0	6.6	9.1
Net assets	\$m 2.6	21.9	23.3	26.8	32.2
Equity	\$m 2.6	21.9	23.3	26.8	32.2
Minorities	\$m 0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m 2.6	21.9	23.3	26.8	32.2
Shares on issue	m 565.0	681.9	683.2	692.3	699.7

CASH FLOW

	2020A	2021A	2022F	2023F	2024F
EBITDA	\$m (1.7)	0.0	1.3	3.9	6.2
Change in working capital	\$m (0.5)	(0.0)	(1.0)	0.8	(0.1)
Net interest	\$m 0.0	0.0	0.2	0.2	0.3
Tax paid	\$m 0.0	0.0	(0.1)	(0.5)	(1.1)
Other	\$m 0.4	0.3	0.0	0.0	0.0
Operating cash flow	\$m (1.8)	0.3	0.5	4.5	5.3
Capital expenditure	\$m (0.1)	(0.1)	(0.0)	(0.0)	(0.0)
Acquisitions/divestment/other	\$m 0.1	0.0	0.0	0.0	0.0
Investing cash flow	\$m (0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Free cash flow	\$m -1.9	0.2	0.4	4.5	5.3
Equity	\$m 2.9	18.9	0.3	0.4	0.5
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 2.9	18.9	0.3	0.4	0.5
Net cash flow	\$m 1.1	19.1	0.7	4.9	5.8

Source: Petra Capital



Petra Capital

Level 17, 14 Martin Place, Sydney NSW 2000
 Level 5, 1 Collins Street, Melbourne VIC 3000

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):	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
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	pdoherty@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
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Administration:	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Administration:	Joanne Condopoulos	+61 (0)2 9239 9635	jcondopoulos@petracapital.com.au
Administration:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Administration:	Lacinda Browne	+61 (0)2 9239 9624	lbrowne@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 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.