

21 April 2022

Dropsuite Limited (DSE)

Continuing to Deliver on Growth

DSE's strong 1Q22 bolsters our confidence in the business model and DSE's ability to reinvest for growth. User growth (+55% y/y) was strong while ARPU growth (+11% y/y) was healthy. The outlook of GP margin improvement and positive CF in FY22 were the key highlights and demonstrates that the business can scale. We retain our Buy and \$0.35 target seeing continued multiyear revenue and earnings growth.

Key Operating Metrics Continued to Grow

- 1Q22 ARR of US\$12.5m was +71%y/y and 15% q/q following 4Q21 ARR of US\$10.9m which was +71% y/y and +13% q/q. The lift in q/q ARR growth was due to a rise in users and ARPU which rose 12% q/q and 2% q/q.
- Another 12 transacting partners were added taking the total number of partners to 421. Further supporting distribution was the addition of ~200 indirect partners.
- GP margins surprised, up 100bps on 4Q21 to 63%.
- Operating CF disappointed, impacted by one-off items of bonuses, insurance and subscriptions.
- Revenue churn remained low at <3%.

Outlook Constructive But Earnings Unchanged

- DSE's outlook remained constructive citing a focus on continuing to deliver growth, profitability, and positive cash flow in FY22.
- We remained encouraged by GP margin recovery and the outlook for a further improvement demonstrating that DSE has the ability to scale and extract further cost savings relating to storage.
- M&A remains on the cards with an emphasis on opportunities that leverage DSE's existing growth and tailwinds in data protection. Cash DD costs were \$273k
- We have kept our estimates unchanged but see scope for growth to surprise to the upside if DSE can maintain its current growth trajectory for the remainder of FY22.
- For now, we sit on the side of caution seeing an 55% CAGR in revenues over three years as our base case with DSE having delivered on a very strong FY21 that benefited from a favourable product mix, strong pricing and customer growth, that is unlikely to repeat in FY22.

Maintain Confidence in DSE's Ability to Scale

- We remain confident in DSE's growth outlook being driven by multiple industry tailwinds (of security, data protection and regulation) and an improving business model where a strengthening distribution channel and management team is helping to accelerate 'go to market' for existing and new products in development.
- We retain our buy rating and 35c target price.

Buy

Share Price: **A\$0.24**

Target Price: **A\$0.35**

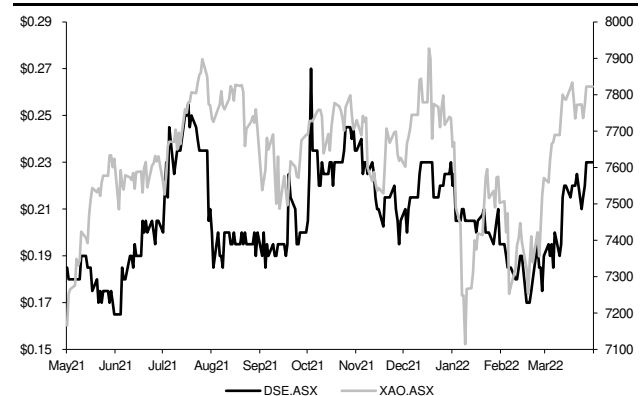
Company Data

Shares – ordinary (M)	681.9
Dilution (M)	17.2
Total (fully diluted) (M)	699.1
Market capitalisation (\$M)	156.8
12 month low/high (\$)	0.16/ 0.28
Average monthly turnover (\$M)	3.2
GICS Industry	Software

Financial Summary (fully diluted/normalised)

Year end December	2020A	2021A	2022F	2023F	2024F
Revenue (\$M)	7.1	11.7	18.7	29.0	43.5
Costs (\$M)	(8.8)	(11.3)	(17.2)	(24.4)	(33.0)
EBITDA (\$M)	(1.7)	0.4	1.5	4.6	10.5
NPAT (\$M)	(2.3)	0.4	1.5	4.6	10.5
EPS (cps)	(0.4)	0.1	0.2	0.7	1.5
EPS Growth (%)	39%	>100%	316%	213%	129%
PER (x)	n/a	446.4	107.3	34.3	15.0
Free cash flow (\$M)	1.1	20.1	1.5	4.4	9.4
FCFPS (cps)	0.2	3.5	0.2	0.7	1.4
PFCFPS (x)	104.4	6.5	104.9	35.3	16.8
Enterprise Value (\$M)	76.5	130.0	156.8	156.8	156.8
EV / Sales (x)	10.8	11.1	8.4	5.4	3.6
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. Petra Capital acted as lead manager to Dropsuite's A\$20m placement on 13 August 2021, for which fees were received

Trevor Huynh, CFA
+61 2 9239 9648

Analysis

Dropsuite Limited						
Year end December						
MARKET DATA						
Recommendation					Buy	
Price	\$				0.24	
Target Price (12-month)	\$				0.35	
52 week high / low					0.27 / 0.17	
Market capitalisation (quoted)	\$m				156.8	
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						
Reported EPS (undiluted)	¢	(0.4)	0.1	0.2	0.7	1.5
....Growth	%	39	>100%	316	213	129
EPS Underlying	¢	(0.4)	0.1	0.2	0.7	1.5
EPS Underlying (diluted)	¢	(0.4)	0.1	0.2	0.7	1.5
PER Underlying (diluted)	x	(64)	478	115	37	16
Operating cash flow per share	¢	(0.4)	0.0	0.2	0.7	1.4
Free cash flow per share	¢	(0.4)	0.0	0.2	0.6	1.4
Price to free cash flow	x	(41.9)	n/a	n/a	35.4	16.7
Free cash flow yield	%	-2%	0%	1%	3%	6%
Book value per share	¢	0.5	4.1	3.7	4.4	5.9
Price to book	x	28.9	5.6	6.3	5.2	3.9
Net tangible assets per share	¢	0.5	4.1	3.7	4.4	5.9
Price to NTA	x	28.9	5.6	6.3	5.2	3.9
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	(2.5)	(22.5)	(24.0)	(28.4)	(37.8)
Enterprise value	\$m	76.5	130.0	156.8	156.8	156.8
EV/Sales	x	10.9	11.1	8.4	5.4	3.6
EV/EBITDA	x	(46.3)	n/a	104.6	34.0	14.9
KEY RATIOS						
EBITDA margin	%	n/a	3.3	8.0	15.9	24.2
EBIT margin	%	n/a	3.0	7.8	15.8	24.1
NPAT margin	%	n/a	3.0	7.8	15.8	24.1
ROE (Average Equity)	%	(103.4)	3.0	6.1	16.7	29.7
ROA (EBIT)	%	(62.1)	2.4	5.5	14.9	26.6
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						
NPAT margin	%	n/a	3.0	7.8	15.8	24.1
Asset Turnover	x	2.0	0.8	0.7	0.9	1.1
Return on Assets (NPAT)	%	n/a	2.4	5.5	14.9	26.6
Financial Leverage	x	1.5	1.1	1.1	1.1	1.1
Return on Equity	%	n/a	2.6	6.1	16.7	29.5
INTERIM SUMMARY						
Total revenue	\$m	3.9	5.0	6.7	8.4	10.2
Operating expenses	\$m	(4.6)	(5.0)	(6.3)	(8.0)	(8.6)
EBITDA	\$m	(0.8)	(0.1)	0.4	0.4	1.6
Depreciation & amortisation	\$m	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	\$m	(0.9)	(0.1)	0.4	0.4	1.6
Net interest	\$m	0.0	0.0	0.0	0.0	0.0
Pretax profit	\$m	(0.9)	(0.1)	0.4	0.4	1.6
Tax expense	\$m	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m	(0.9)	(0.1)	0.4	0.4	1.6
Dividend	¢	0.0	0.0	0.0	0.0	0.0
PROFIT AND LOSS						
Sales Revenue	\$m	7.0	11.7	18.7	29.0	43.5
Other Income	\$m	0.1	0.0	0.0	0.0	0.0
Total Revenue	\$m	7.1	11.7	18.7	29.0	43.5
Operating costs	\$m	(8.8)	(11.3)	(17.2)	(24.4)	(33.0)
EBITDA	\$m	(1.7)	0.4	1.5	4.6	10.5
Depreciation & amortisation	\$m	(0.5)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	\$m	(2.2)	0.3	1.5	4.6	10.5
Net interest	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	(2.1)	0.3	1.5	4.6	10.5
Tax expense	\$m	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m	(2.1)	0.3	1.5	4.6	10.5
Adjustments	\$m	(0.2)	0.0	0.0	0.0	0.0
Reported NPAT	\$m	(2.3)	0.4	1.5	4.6	10.5
BALANCE SHEET						
Cash	\$m	2.5	22.5	24.0	28.4	37.8
Receivables	\$m	1.4	2.2	3.4	4.8	6.8
Other	\$m	0.1	0.3	0.3	0.3	0.3
Current	\$m	4.0	25.0	27.7	33.5	44.8
PPE	\$m	0.0	0.1	0.1	0.1	0.0
Intangibles	\$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	25.1	27.8	33.7	44.9
Accounts Payable	\$m	1.3	1.7	2.3	3.0	3.5
Borrowings	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.1	0.3	0.4	0.6	0.8
Current	\$m	1.4	2.0	2.8	3.6	4.3
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	1.4	2.1	2.8	3.7	4.4
Equity	\$m	24.3	44.3	44.3	44.3	44.3
Retained earnings	\$m	(21.6)	(21.3)	(19.3)	(14.4)	(3.8)
Reserves / Other	\$m	(0.0)	0.1	0.1	0.1	0.1
Shareholder's equity	\$m	2.6	23.0	25.0	29.9	40.5
CASH FLOW						
EBITDA	\$m	(1.7)	0.4	1.5	4.6	10.5
Change in working capital	\$m	(0.0)	19.6	(0.5)	(0.5)	(1.2)
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	(0.2)	(20.0)	0.5	0.4	0.1
Operating cash flow	\$m	(1.8)	0.1	1.5	4.4	9.4
Capex	\$m	(0.0)	(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	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Change in Equity	\$m	2.9	20.0	0.0	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	2.9	20.0	0.0	0.0	0.0
Free cash flow	\$m	(1.8)	0.0	1.5	4.4	9.4

Source: 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):	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 (Industrials):	Trevor Huynh	+61 (0)2 9239 9648	thuynh@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
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:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Administration:	Katya Beidar	+61 (0)2 9239 9645	kbeidar@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.