Dropsuite Ltd (DSE)

Rating: Buy | Risk: High | Price Target: $0.30

Backup the truck for a high-growth stock (that is profitable). Initiate with a Buy.

Key Information

Current Price ($ps)	0.22
12m Target Price ($ps)	0.30
52 Week Range ($ps)	0.15 - 0.24
Target Price Upside (%)	36.4%
TSR (%)	36.4%
Reporting Currency	AUD
Market Cap ($m)	155.4
Sector	Information Technology
ASX 200 Weight (%)	0.01%

Fundamentals

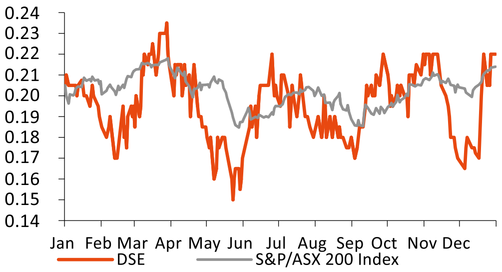
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales ($m)	11.7	20.0	27.5	34.5
NPAT ($m)	0.2	1.1	1.5	2.0
EPS (cps)	0.0	0.2	0.2	0.3
EPS Growth (%)	107.8%	446.8%	37.0%	27.5%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	nm	nm	nm	81.1
EV/EBITDA (x)	623.6	92.5	65.8	49.7
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	24.7%	(4.4%)	(11.6%)	3.4%
Absolute (%)	29.4%	0.0%	0.0%	7.3%
Benchmark (%)	4.7%	4.4%	11.6%	3.9%



Price performance indexed to 100 *Source: FactSet*

Major Shareholders

Topline Capital Management LLC (Investme	24.5%
Glory Wealth Group Ltd.	7.1%
FEARO TRACY ANNE	5.4%

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Event

We are initiating on Dropsuite (DSE) with a Buy rating. DSE is a leading partner-centric, data backup, archiving and compliance vendor for small and medium sized businesses (SMBs) globally. Its suite of backup solutions cover websites, email, servers and productivity suites including Microsoft 365 and Google Workplace. We forecast DSE will increase ARR to $49m by FY25, implying a 3-year organic CAGR of +24%. While an already impressive rate of growth, we think the risk lies to the upside through FY25, creating a potentially powerful set-up. But what truly sets DSE apart, is that it is achieving this impressive growth whilst being profitable and producing positive cashflow – this is a rare combo on the ASX for software stocks. DSE is well capitalized with ~$22m of cash and no debt, providing ample scope for potential accretive M&A and further upside risk to our forecasts. DSE is attractively priced trading on a NTM EV/Rev multiple of 4.7x, which implies a -6% discount to its profitable peers. We set a PT of $0.30/share, which implies a TSR of over 35% and initiate with a Buy.

Highlights

- **Growing fast with upside risk** – We forecast ARR will grow at a 24% CAGR through FY25. While an already impressive rate of growth, we think the risk lies to the upside through FY25, creating a potentially powerful set-up. To highlight, 1) our 24% CAGR implies a very conservative YoY growth decel vs the 70% CAGR achieved over the last 3-years and the FY22 exit rate of 67%; and 2) to achieve our forecast $49m ARR in FY25, DSE only needs to add ~$8m incremental ARR per annum vs the $10.2m added in FY22. With our forecasts in-line with consensus and ARR a touch below our read of management's FY25 organic growth target (~$50m), we consider that expectations have been implicitly de-risked for any potential macro risks that may impact in FY23 and other factors.

- **Leveraged to multiple demand tailwinds** – DSE's impressive growth is underpinned by multiple tailwinds: 1) Data back-up and archiving is leveraged to the increasing ransomware threat. If you have a clean backup of your data, then you have the best chance of limiting the impact of an attack and getting back to business. 2) Contrary to initial perceptions, the cloud is serving as a tailwind for data backup. Migrating to the cloud requires sophisticated new backup tools and given a "shared responsibility" model, backing up your data to ensure you can retrieve it in the event of an outage or security incident. 3) As a partner centric-vendor DSE benefits as its managed service provider (MSP) partners grow their own end-user customer bases. MSP spend is growing at 2-3x the rate of overall SMB IT spend and is still only ~20% penetrated. Importantly, DSE's core email backup and archiving solutions overlap nicely with what MSPs offer their customers making DSE a key vendor to the channel.

- **Partner-centric model is a key differentiator** – DSE's partner centric approach and its base of over 3,200 transacting MSPs (~10% of target partners) is a key differentiator and attraction for us. We think it provides scope for DSE to grow into a substantially larger business overtime, allows value to be driven through M&A and provides a super-efficient operating model. To highlight, we estimate DSE is adding over $1 of ARR for every $1 invested in total employee and marketing costs. We would argue this is more like $2-3 of ARR, based purely on a sales & marketing (S&M) view. This super-efficient partner-centric operating model has allowed DSE to compound ARR at 70% whilst being profitable and we expect will continue to drive material gross margin and Cash EBITDA margin expansion over the longer-term.

Recommendation

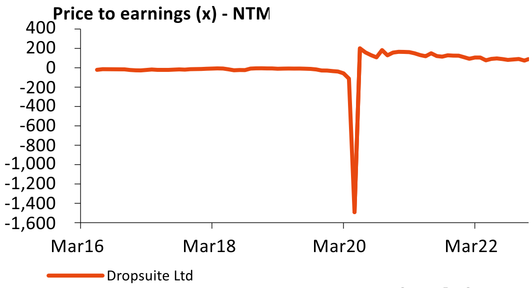
We are initiating on DSE with a Buy rating and 12m price target of $0.30/share. Our price target is based on a 10-year discounted cash flow (DCF) analysis and implies a terminal EV/FCF multiple of 19x and a discount rate of 9.1%. This price target implies an FY23 EV/Sales multiple of 6.9x.

Dropsuite Ltd
Information Technology
Software & Services
FactSet: DSE-AU / Bloomberg: DSE AU

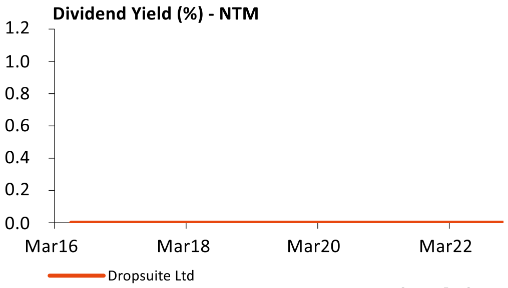
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.22
Target Price ($ps)	0.30
52 Week Range ($ps)	0.15 - 0.24
Shares on Issue (m)	706.4
Market Cap ($m)	155.4
Enterprise Value ($m)	133.1
TSR (%)	36.4%

Valuation NPV	Data
Beta	1.10
Cost of Equity (%)	9.1%
Cost of Debt (net) (%)	0.0%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	3.5%
WACC (%)	9.1%
Valuation ($m)	183.3
Valuation per share (cps) (AUD)	0.26

Dropsuite (DSE) is a leading partner-centric, data backup, archiving and compliance vendor for small and medium sized businesses globally. Its suite of backup solutions cover websites, email, servers and productivity suites including Microsoft 365 and Google Workplace. DSE was founded in 2011 and is headquartered in Singapore.



Source: FactSet



Source: FactSet

Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	**(0.4)**	**(0.0)**	**0.2**	**0.2**	**0.3**
EPS (Underlying) (cps)	**(0.4)**	**0.0**	**0.2**	**0.2**	**0.3**
EPS (Underlying) Growth (%)	39.1%	107.8%	446.8%	37.0%	27.5%
PE (Underlying) (x)	**(15.6)**	**nm**	**nm**	**nm**	**81.1**
EV / EBIT (x)	**(70.8)**	**755.6**	**96.5**	**68.2**	**51.5**
EV / EBITDA (x)	**(92.6)**	**623.6**	**92.5**	**65.8**	**49.7**
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(5.5%)	0.3%	0.4%	1.0%	1.3%

Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	7.1	11.7	20.0	27.5	34.5
Sales Growth (%)	*50.6%*	*64.6%*	*71.1%*	*37.3%*	*25.4%*
EBITDA	**(1.7)**	**0.2**	**1.4**	**2.0**	**2.6**
EBITDA Margin (%)	*(23.2%)*	*1.8%*	*7.2%*	*7.3%*	*7.6%*
Depreciation & Amortisation	(0.5)	0.0	(0.1)	(0.1)	(0.1)
EBIT	**(2.2)**	**0.2**	**1.4**	**1.9**	**2.5**
EBIT Margin (%)	*(30.4%)*	*1.5%*	*6.9%*	*7.0%*	*7.3%*
Net Interest	0.0	0.0	0.1	0.1	0.1
Pretax Profit	(2.1)	0.2	1.4	2.0	2.6
Tax	0.0	0.0	(0.3)	(0.5)	(0.6)
Tax Rate (%)	*0.0%*	*0.0%*	*(23.6%)*	*(23.6%)*	*(23.6%)*
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	**(2.1)**	**0.2**	**1.1**	**1.5**	**2.0**
Significant Items	0.0	(0.2)	0.0	0.0	0.0
NPAT Reported	**(2.1)**	**0.0**	**1.1**	**1.5**	**2.0**

Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(2.2)	0.2	1.4	1.9	2.5
Tax Paid	0.0	0.0	(0.2)	(0.5)	(0.6)
Net Interest	0.0	0.0	0.1	0.1	0.1
Change in Working Capital	(0.4)	0.1	(0.8)	(0.3)	(0.3)
Depreciation & Amortisation	0.5	0.0	0.1	0.1	0.1
Other	0.2	0.0	0.2	0.3	0.4
Operating Cashflow	**(1.8)**	**0.3**	**0.6**	**1.6**	**2.2**
Capex	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Acquisitions and Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	**0.0**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**
Free Cashflow	**(1.8)**	**0.4**	**0.6**	**1.5**	**2.1**
Equity Raised / Bought Back	2.9	18.9	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cashflow	**2.9**	**18.9**	**0.0**	**0.0**	**0.0**
Net Change in Cash	**1.1**	**19.1**	**0.6**	**1.5**	**2.1**

Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	2.5	21.6	22.3	23.8	25.9
Accounts Receivable	1.4	2.2	3.9	5.3	6.6
Other Current Assets	0.1	0.2	0.3	0.3	0.3
PPE	0.0	0.0	0.0	0.1	0.1
Goodwill & Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.1	0.1	0.1	0.1	0.1
Total Assets	**4.1**	**24.1**	**26.6**	**29.6**	**33.0**
Accounts Payable	1.3	2.0	2.9	4.0	5.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Income Taxes Payable	0.0	0.0	0.1	0.1	0.1
Other	0.1	0.2	0.3	0.3	0.4
Total Liabilities	**1.4**	**2.2**	**3.2**	**4.4**	**5.5**
Total Shareholder Equity	**2.6**	**21.9**	**23.3**	**25.2**	**27.5**

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(96.5%)	1.5%	4.8%	6.3%	7.5%
Gearing (%)	(1,513.6%)	(7,309.8%)	(2,086.2%)	(1,743.4%)	(1,572.5%)
Net Debt / EBITDA (x)	1.5	(100.7)	(15.5)	(11.9)	(9.9)

Investment highlights

Growing fast with upside risk

We forecast ARR will grow at a 24% CAGR through FY25. While an already impressive rate of growth, we think the risk lies to the upside through FY25, creating a potentially powerful set-up. To highlight, 1) our 24% CAGR implies a very conservative YoY growth decel vs the 70% CAGR achieved over the last 3-years and the FY22 exit rate of 67%; and 2) to achieve our forecast $49m ARR in FY25, DSE only needs to add ~$8m incremental ARR per annum vs the $10.2m added in FY22. With our forecasts in-line with consensus and ARR a touch below our read of management's FY25 organic growth target (~$50m), we consider that expectations have been implicitly de-risked for any potential macro risks that may impact in FY23 and other factors.

Leveraged to multiple demand tailwinds

DSE's impressive growth is underpinned by multiple tailwinds: 1) Data back-up and archiving is leveraged to the increasing ransomware threat. If you have a clean backup of your data, then you have the best chance of limiting the impact of an attack and getting back to business. 2) Contrary to initial perceptions, the cloud is serving as a tailwind for data backup. Migrating to the cloud requires sophisticated new backup tools and given a "shared responsibility" model, backing up your data to ensure you can retrieve it in the event of an outage or security incident. 3) As a partner centric-vendor DSE benefits as its managed service provider (MSP) partners grow their own end-user customer bases. MSP spend is growing at 2-3x the rate of overall SMB IT spend and is still only ~20% penetrated. Importantly, DSE's core email backup and archiving solutions overlap nicely with what MSPs offer their customers making DSE a key vendor to the channel.

Partner-centric model is a key differentiator

DSE's partner centric approach and its base of over 3,200 transacting MSPs (~10% of target partners) is a key differentiator and attraction for us. We think it provides scope for DSE to grow into a substantially larger business overtime, allows value to be driven through M&A and provides a super-efficient operating model. To highlight, we estimate DSE is adding over $1 of ARR for every $1 invested in total employee and marketing costs. We would argue this is more like $2-3 of ARR, based purely on a sales & marketing (S&M) view. This super-efficient partner-centric operating model has allowed DSE to compound ARR at 70% whilst being profitable and we expect will continue to drive material gross margin and Cash EBITDA margin expansion over the longer-term.

Risks to rating and target price

Top line growth does not deliver

We think our forecasts have been framed conservatively and that the risk lies to the upside through FY25. However, a tougher macro environment could impact demand for email backup and archiving solutions, sold to SMBs via MSPs. Further, our medium-term revenue growth relies on the successful launch of new products at higher ARPUs. Lastly, DSE is growing fast and scaling rapidly, which brings its own unique set of challenges. Any of these factors could result in DSE not delivering the forecast growth we expect, which may impact operating leverage, efficiency optics and sentiment.

Loss of a material partner

As a partner-centric software vendor, DSE sells its solutions via hundreds of direct resellers and thousands of indirect MSPs. However, we think it is likely that within DSE's top 10 partners, that some could be generating revenues in excess of a couple of million. The loss of any material partner, could result in DSE not delivering the forecast growth we expect, which may impact operating leverage, efficiency optics and sentiment.

Broader 'Tech' rotation risks may continue to impact sentiment

In FY22, small-cap software fell -28% lagging the ASX Small Ords (-21%) and the US peer group (-22%), as inflation, rising rates, geopolitical disruption and recession risks all impacted. Whilst valuations have corrected and software's fundamentals generally remain strong, there is potential for a macro slowdown to impact demand in the short-term. This may impact perceptions of software's relative growth and quality attributes, which could continue to negatively impact sentiment and delay any potential re-rating.

Company overview

Dropsuite (DSE) is a leading partner-centric, data backup, archiving and compliance vendor for small and medium sized businesses globally. Its suite of backup solutions cover websites, email, servers and productivity suites including Microsoft 365 and Google Workplace. Backup and archiving solutions help businesses securely backup, manage, recover and protect all of their data. This has become increasingly relevant as ransomware threats and compliance requirements have increased. DSE sells its solutions via channel partners, including over 490 direct and 3,200 indirect MSPs.

DSE was founded in 2011 and listed on the ASX in 2016 (via a reverse takeover of Excalibur Mining). For the period ended FY22, it reported $25.4m ARR (+67% YoY organic growth), a 4Q exit gross margin of 70% and was profitable, generating ~$900k of gross free cashflow. DSE is well capitalized and closed FY22 with a net cash balance of $22.3m and no debt.

DSE initially provided website backup, but in 2018 it shifted its focus to email and began to target the MSP channel. In hindsight, this was a masterstroke, and since then a combination of strong demand, the rise of MSPs and a super-efficient operating model has allowed DSE to both grow fast and become profitable. This is a rare combination on the ASX.

DSE's partner centric approach and substantial established partner base is a key differentiator and attraction for us. We believe it provides scope for DSE to grow into a substantially larger business overtime, allows value to be driven through M&A and is a super-efficient operating model.

We forecast DSE's ARR can reach $49m by FY25, which puts us a touch below our read of management's FY25 organic target. Specifically, management are targeting to grow at 2x industry through FY25 via a combination of existing organic business, launching new products and accretive M&A. We estimate this implies an organic ARR target of ~$50m.

This underpins our expectation that DSE's revenue will increase to over $41m by FY25, implying a 3-year organic CAGR of 27%. While an already impressive rate of growth, we think the risk lies to the upside through FY25, creating a potentially powerful set-up.

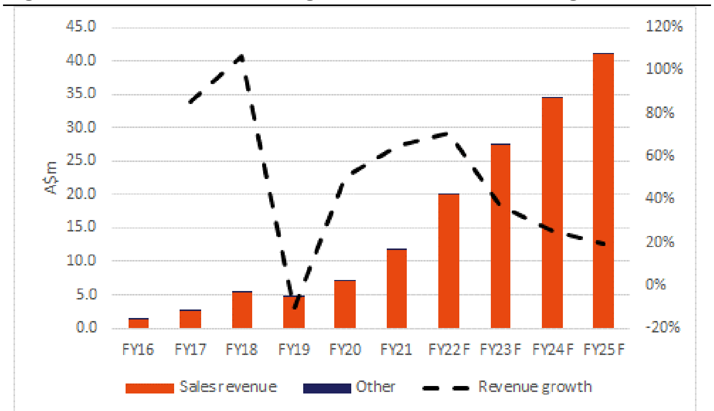
We forecast Cash EBITDA margins can expand by +155bps to 9.8% compared to likely ~8.3% in FY22. This implies an underlying 26% CAGR in total cash costs, which is consistent with DSE's historical pace of cost growth (FY16-FY22 CAGR ~31%).

While we expect material gross margin and Cash EBITDA margin expansion over the longer-term, near term we expect DSE to be strategically focused on reinvesting to drive top line growth. Given a large addressable market, a substantial established partner base and attractive unit economics, we concur that this is the right strategy for now.

Note, we have not factored M&A into our current forecasts, however, with an ~$22m cash balance, a substantial established partner base and a highly fragmented vendor landscape, this seems a likely source of incremental forecast upside and shareholder value to us.

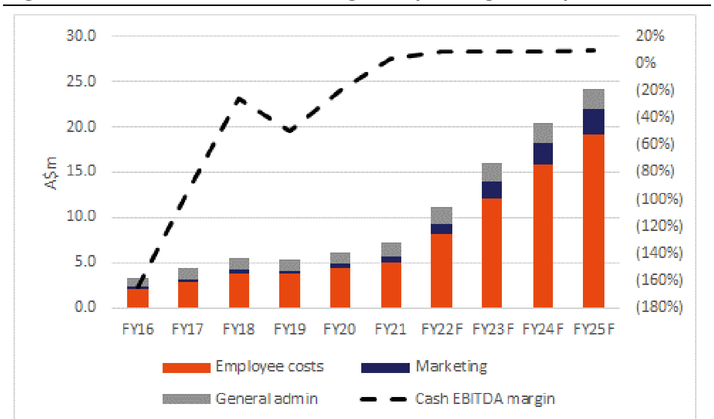
DSE's is headquartered in Singapore and has approx. 84 employees. It has a sales presence in the US, Europe, Japan and Australia and a development team primarily based in Indonesia.

Figure 1: We fcast revenue to grow at a 27% CAGR through FY25…



Source: Company reports, Shaw and Partners analysis

Figure 2: …while Cash EBITDA margins expanding +155bps



Source: Company reports, Shaw and Partners analysis

Financial outlook

We forecast DSE will increase revenue to over $41m and ARR to $49m by FY25, implying 3-year organic CAGRs of 27% and 24% respectively.

While these are already impressive growth rates, we think the risk lies to the upside through FY25, creating a potentially powerful set-up.

We view ARR as the key driver of revenue growth. We forecast DSE's ARR can reach $49m by FY25, which puts us a touch below our read of management's FY25 organic target (~$50m). We feel our assumptions around user growth and the contribution from new products is where we have potentially been the most conservative.

Our forecast revenue and ARR CAGRs, of 27% and 24% respectively, imply a very conservative YoY growth decel. To highlight, DSE has impressively grown revenue at ~62% CAGR and ARR at a 70% CAGR over the last 3 years, including an FY22 exit rate of 67%.

Our forecast 27% revenue CAGR is also only modestly ahead of industry growth (~24% per annum). Given DSE's momentum and relative scale today, we think it is relatively safe assumption, to assume it can continue to grow faster than system.

Given the set-up, we consider that expectations have been implicitly de-risked for any potential macro risks that may impact in FY23 and any other factors that may arise (for example, a partner decision to insource, or material partner end-user churn etc).

We forecast Cash EBITDA margins can expand by +155bps to 9.8% compared to likely ~8.3% in FY22. This implies an underlying 26% CAGR in total cash costs, which is consistent with DSE's historical pace of cost growth (FY16-FY22 CAGR ~31%).

While Factset doesn't show FY25 estimates, our revenue and EBITDA forecasts are broadly in-line with consensus for FY23 and FY24. DSE has not provided specific FY23 and FY24 guidance but expects to deliver ARR growth, has a strong sales pipeline and expects to remain profitable and cashflow positive in FY23.

Longer term, our DCF is underpinned by terminal (FY32) revenue of ~$100m, a gross margin of 82% and Cash EBITDA margin of 24%. We believe this terminal revenue forecast equates to less than 5% of DSE's addressable market (~US$3.3bn) and our terminal margin assumption sit modestly below the 28% that Datto, a relevant global peer, was achieving in 2021 prior to its acquisition.

We have not factored M&A into our current forecasts, however, with a cash balance of ~$22m, a substantial established partner base and a highly fragmented vendor landscape, this seems a likely source of incremental forecast upside and shareholder value to us.

Figure 3: Key financial metrics through FY25

A$m, Dec year end	FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F	FY25F	22-25 CAGR
ARR	**1.7**	**3.3**	**4.6**	**5.2**	**8.5**	**15.2**	**25.4**	**33.5**	**41.5**	**49.0**	**24%**
% yoy growth		99%	40%	13%	63%	80%	67%	32%	24%	18%	
Revenue	**1.4**	**2.6**	**5.3**	**4.7**	**7.1**	**11.7**	**20.0**	**27.5**	**34.5**	**41.1**	**27%**
% yoy growth		85%	106%	-11%	51%	65%	71%	37%	25%	19%	
Cost of sales	-0.3	-0.6	-1.2	-1.7	-2.5	-4.2	-7.2	-9.2	-11.1	-12.9	
Gross margin	**1.0**	**2.0**	**4.1**	**3.0**	**4.6**	**7.5**	**12.8**	**18.3**	**23.3**	**28.2**	**30%**
Margin %	76%	77%	77%	64%	65%	64%	64%	67%	68%	69%	
Overhead	-3.1	-4.4	-6.2	-7.1	-8.5	-11.3	-18.4	-25.2	-31.5	-37.1	
Op EBITDA (ex SBP)	**-1.7**	**-1.9**	**-0.9**	**-2.3**	**-1.4**	**0.4**	**1.7**	**2.3**	**3.0**	**4.0**	
Development	-0.5	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
CAC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Cash EBITDA	**-2.3**	**-2.4**	**-1.4**	**-2.3**	**-1.4**	**0.4**	**1.7**	**2.3**	**3.0**	**4.0**	
Margin %	-164%	-92%	-26%	-50%	-20%	3%	8%	8%	9%	10%	
Total cash costs	-3.7	-4.9	-6.6	-7.1	-8.5	-11.3	-18.4	-25.2	-31.5	-37.1	**26%**
% yoy growth		35%	35%	6%	21%	33%	62%	37%	25%	18%	
EBITDA (inc SBP/non-op)	**-1.7**	**-1.9**	**-0.9**	**-2.3**	**-1.7**	**0.2**	**1.4**	**2.0**	**2.6**	**3.6**	
Margin %	-126%	-74%	-17%	-50%	-23%	2%	7%	7%	8%	9%	

Source: Company reports, Shaw and Partners analysis

Valuation

We calculate a 12mth price target of A$0.30/sh based on a rolled forward discounted cashflow (DCF) analysis that assumes explicit forecasts through FY32, a 9.1% WACC and 3.5% terminal growth.

Figure 4: Spot DCF A$0.26/share and rolled forward 12m PT A$0.30/share, implies 19x terminal EV/FCF multiple

Equity value	Value $m	Value, per share
10 year PV of FCF	37.4	$0.05
PV of terminal value	123.6	$0.17
Net cash/(debt)	22.3	$0.03
Other assets		
Total equity value	**$183.3**	**$0.26**
12mth Price Target	**$211.9**	**$0.30**

A$, June y/e	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
FCF	2	2	3	4	5	7	9	12	15	18
Growth	149%	36%	40%	31%	39%	36%	31%	27%	25%	22%
FCF p/s	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.02	0.02	0.02
Growth	146%	33%	37%	29%	37%	34%	29%	25%	23%	21%

WACC calculation	FY0
Beta	1.1
Risk free rate (%)	3.0
Market risk premium (%)	5.5
Required rate of return	9.1
Equity to market value of total capital (%)	100.0
Rate of debt	0.0
Debt to market value of total capital (%)	0.0
Tax rate, Incremental	24.0
Weighted Average Cost of Capital (WACC)	**9.1**

Terminal value	FY0
Long-term growth rate (%)	3.50
Terminal value	341
Discount factor	0.420
Discounted terminal value	143
Terminal Multiple	**19x**

Source: Company reports, Shaw and Partners analysis

PT A$0.30 implies FY23 EV/revenue multiple of 6.9x

Using a range of terminal multiples between 16x and 23x implies a valuation range of A$0.25 – $0.32/sh. We believe a base case 19x terminal FCF multiple is appropriate and aligns with our terminal growth assumptions. This implies an EV/revenue multiple of 6.9x when applied to our FY23 estimates.

Figure 5: Terminal multiple scenarios

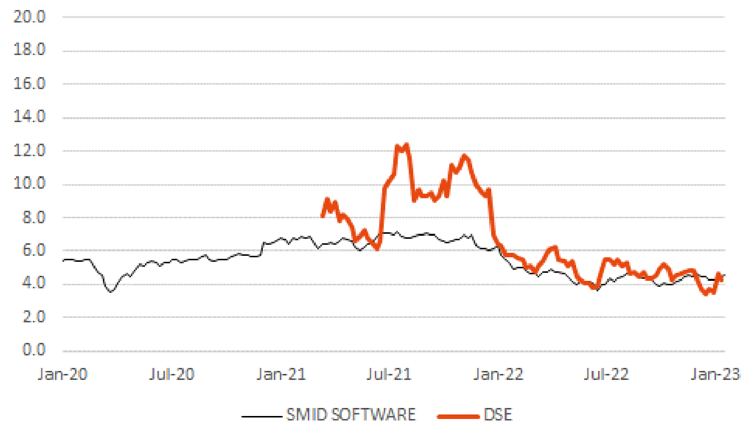
Terminal multiple scenarios	1	2	3 (Base case)	4	5
Terminal value	286	305	341	378	414
Last fcast FCFF	18	18	18	18	18
Terminal EV/FCFF	16x	17x	19x	21x	23x
PV of forecast cashflows	37	37	37	37	37
PV terminal value	104	110	124	137	150
Enterprise value	**141**	**148**	**161**	**174**	**188**
Net cash / (debt)	22	22	22	22	22
Other assets	0	0	0	0	0
Equity value	**163**	**170**	**183**	**197**	**210**
Diluted shares	706	706	706	706	706
Per share	0.23	0.24	0.26	0.28	0.30
Rolled fwd = TP range	**0.25**	**0.26**	**0.30**	**0.30**	**0.32**

Source: Company reports, Shaw and Partners analysis

Valuation relative to peers and historical markers

Based on consensus forecasts, DSE is currently trading at -6% NTM EV/Revenue discount vs its small cap ASX software peers. We believe DSE's superior growth profile warrants a premium and note that it has traded at an average ~10% premium over the LTM, a period which has been challenging for long duration growth stocks.

Figure 6: Consensus EV/Revenue (NTM) vs ASX small-cap software peers



Source: Factset, Shaw and Partners analysis

Based on our forecasts, DSE is currently trading on a NTM EV/Revenue multiple of 4.7x and 5.1x trailing ARR. This implies a material 35-45% discount to historical markers, including:

- **Capital raising (2021):** implied 7.4x NTM revenue and 9.5x trailing ARR
- **Datto acquisition (2021):** implied 9.4x trailing ARR

This 4.7x multiple implies a -6% discount vs our profitable ASX small-cap technology coverage universe. Whilst DSE's mcap/liquidity is lower vs many of its larger profitable peers, this is more than compensated for by its superior growth. We forecast DSE will grow revenue by 36% in the next FY vs an average 11% across profitable peers. High-growth and profitability is a rare combo on the ASX and warrants a premium.

For an earnings view, we see DSE trading on an FY26 EV/Cash EBITDA multiple of 25x at which point we still expect cash earnings to be growing at >35%. Our PT implies an FY26 multiple of 36x, which we think is more appropriate for this growth profile.

Figure 7: DSE is trading at -6% EV/Revenue (NTM) discount vs our profitable small-cap software coverage universe

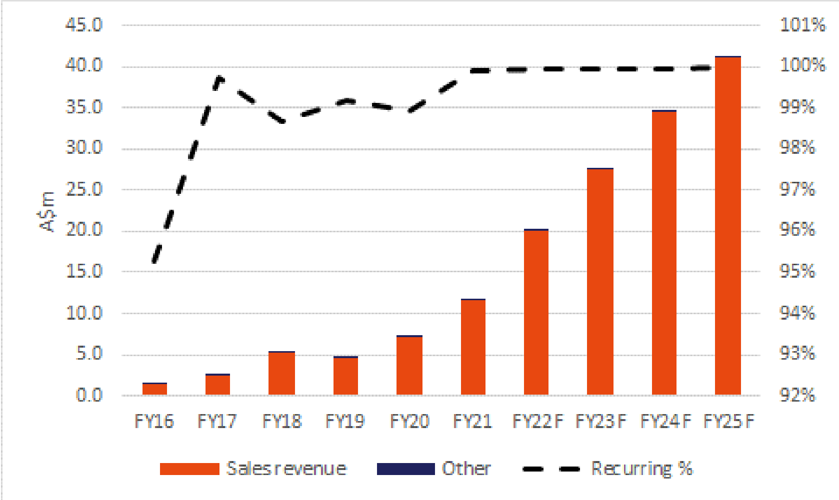
		Px	Perf	Perf	Mcap	EV		EV/Revenue			EV/Cash EBITDA			Rev gr	Margin
		Last	3m roll	1yr roll	AUD (m)	AUD (m)	Y/E	FY1	FY2	NTM	FY1	FY2	NTM	FY1	FY1
TNE-AU	Technology One	13.80	21%	21%	4,450	4,306	30-Sep	10.6	9.5	10.2	40.1	32.4	37.5	13%	26%
IRE-AU	IRESS	9.74	6%	(19%)	1,790	2,137	31-Dec	3.2	3.1	3.2	18.2	15.3	15.2	5%	21%
HSN-AU	Hansen	4.99	11%	(2%)	1,020	1,062	30-Jun	3.0	2.9	3.0	12.7	12.1	12.4	6%	24%
FCL-AU	FINEOS	1.89	33%	(54%)	593	533	30-Jun	2.6	2.4	2.5	NA	NA	NA	8%	-8%
KED-AU	Keypath Education	0.63	(30%)	(75%)	135	47	30-Jun	0.3	0.3	0.3	NA	NA	NA	8%	-12%
RDY-AU	ReadyTech	3.51	18%	12%	400	428	30-Jun	4.6	4.0	4.2	25.7	20.0	22.2	13%	18%
ELO-AU	ELMO Software	4.81	57%	13%	478	499	30-Jun	4.0	3.3	3.6	NA	NA	NA	28%	-14%
NTO-AU	Nitro Software	2.21	32%	4%	542	481	31-Dec	4.7	4.0	4.6	NA	NA	NA	16%	-11%
CAT-AU	Catapult	0.73	(7%)	(48%)	185	170	31-Mar	1.3	1.1	1.2	NA	NA	NA	12%	-28%
M7T-AU	Mach7	0.74	40%	(7%)	177	153	30-Jun	4.9	4.6	4.7	30.3	29.3	29.7	20%	16%
C79-AU	Chrysos Corp	3.50	4%		338	250	30-Jun	10.3	5.1	6.6	NA	NA	69.3	96%	-11%
GTK-AU	Gentrack	2.43	63%	31%	247	233	30-Sep	1.8	1.6	1.8	41.9	12.3	24.3	6%	4%
WSP-AU	Whispir	0.52	(31%)	(82%)	61	37	30-Jun	0.7	0.6	0.7	NA	NA	NA	-9%	-22%
JAN-AU	Janison Edu	0.56	53%	(54%)	133	124	30-Jun	3.0	2.5	2.7	NA	34.5	70.5	14%	-1%
DSE-AU	Dropsuite	0.21	2%	(7%)	145	123	31-Dec	4.7	3.8	4.7	56.1	43.3	55.3	36%	8%
BMT-AU	Beamtree	0.31	25%	(33%)	78	73	30-Jun	3.5	2.7	3.0	NA	NA	NA	21%	-22%
PLY-AU	Playside	0.63	(2%)	(41%)	248	212	30-Jun	6.4	4.9	5.5	NA	NA	NA	73%	-27%
XPN-AU	Xpon	0.14	(13%)	(33%)	43	35	30-Jun	1.8	1.3	1.5	NA	NA	NA	56%	-23%
LME-AU	Limeade	0.23	133%	(44%)	63	67	31-Dec	0.5	0.5	0.5	NA	NA	NA	9%	-3%
	Average (small software)							**4.1**	**3.6**	**3.9**	**88.7**	**35.3**	**29.1**	**22%**	**(4%)**
	Average (profitable only)							**5.0**	**4.7**	**4.9**	**25.2**	**20.6**	**22.1**	**11%**	**18%**
DSE-AU	**Dropsuite**	**0.21**	**2%**	**(7%)**	**145**	**123**	**31-Dec**	**4.7**	**3.8**	**4.7**	**56.1**	**43.3**	**55.3**	**36%**	**8%**
Premium/(discount) to Profitable								**-7%**	**-21%**	**-6%**	**122%**	**110%**	**149%**	**240%**	**-54%**

Source: Factset, Shaw and Partners analysis, data as at 17 January 2023

How DropSuite makes money?

DSE's revenue is essentially 100% recurring subscription. DSE sells its solutions via distributors, with its subscription revenue largely determined on a fixed price per end-user basis. We estimate DSE earns over 50% of the end user price, with its reseller partners taking the balance as a distribution margin. DSE bills its distributors on a monthly basis.

Figure 8: Revenue is essentially 100% recurring subscription



Source: Company reports, Shaw and Partners analysis

Other considerations:

- **Gross margin vs peers that sell direct:** Given DSE 's revenue does not include the distribution margin shared with its resellers, this impacts gross margin analysis when compared to software companies that predominantly sell direct. To highlight, in FY22 we expect DSE will report an average gross margin of 64-65% but we estimate this would be closer to 80% on an end-user revenue basis.

- **Customer concentration:** DSE disclosed that its top 10 customers contributed ~67% of FY21 revenue, implying an average spend of over $750k per partner. DSE has not specifically disclosed the size of its largest partner, however, in the past it has highlighted that select partners have generated annual revenues of between $1.7-1.8m. We think it is likely that within DSE's top 10 partners, that some could be generating revenues in excess of a couple of million.

- **Geographic exposure:** in 1H22 DSE disclosed that its revenue was split 58% USA, 19% Europe and 23% ROW. This is in-line Frost & Sullivan estimate of global MSP revenue across Unified Continuity, Networking and Business Management, included in Datto's IPO documents. Specifically, they estimated 57% Americas, 18% EMEA and 25% APAC.

- **Vertical exposure:** DSE's 2022 investor day deck specifically highlighted its capability to serve end-users in the healthcare, financial and government verticals. Given DSE combines both email backup and archiving, we expect its end-users are skewed toward verticals with email preservation requirements, like healthcare, accounting and legal etc. These are likely more defensive than your average small and medium sized business.

- **FX exposure:** The majority of DSE's business is located in the USA and typically in other markets pricing will be based on US$ equivalents. DSE report its results in A$, so movements vs the US$ can impact key reported metrics like ARR and ARPU. For this reason, DSE report key metrics in both currencies.

Revenue to grow to over $41m by FY25

We forecast DSE will increase revenue to over $41m by FY25, implying a 3-year organic CAGR of 27%.

While these are already impressive growth rates, we think the risk lies to the upside through FY25, creating a potentially powerful set-up.

We view ARR as the key driver of revenue growth. We forecast DSE's ARR can reach $49m by FY25, which puts us a touch below our read of management's FY25 organic target (~$50m). We also assume a revenue to ARR conversion rate of 88%, which is modestly below the 3-year average of 90%. Note: We provide a full discussion of ARR and the key drivers in the next section.

Our forecast 27% revenue CAGR implies a very conservative YoY growth decel vs the 62% CAGR achieved over the last 3-years. To achieve our FY25 revenue, DSE only needs to add ~$7m incremental revenue per annum vs likely ~$8m added in FY22.

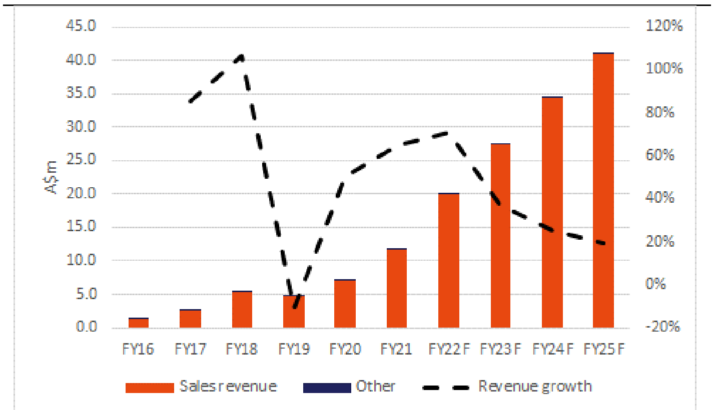
Our forecast 27% revenue CAGR is also only modestly ahead of industry growth. Allied Research, estimate the market for cloud backup and recovery is expected to grow at a 24% CAGR through FY17-FY23. Given DSE's momentum and relative scale today, we think it is relatively safe assumption, to assume it can continue to grow faster than system.

Given the set-up, we consider that expectations have been implicitly de-risked for any potential macro risks that may impact in FY23 and any other factors that may arise (for example, a partner decision to insource, or material partner end-user churn etc).

Longer term, our DCF is underpinned by terminal (FY32) revenue of ~$100m. We believe this would equate to less than 5% of DSE's addressable market (~US$3.3bn) and represent just 12% of Datto's FY21 subscription revenue prior to its acquisition (US$577m).

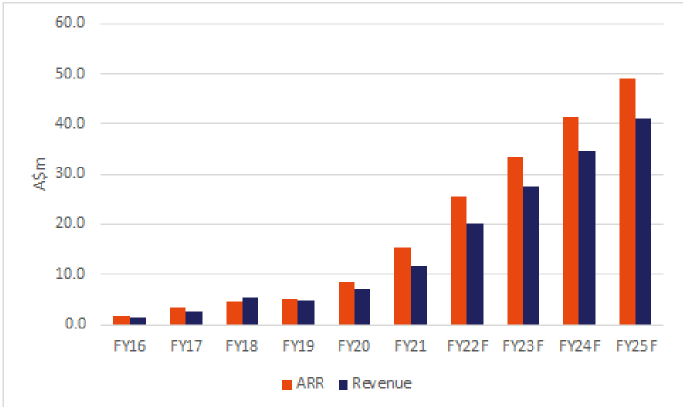
We have not factored M&A into our current forecasts, however, with a cash balance of ~$22m, a substantial established partner base and a highly fragmented vendor landscape, this seems a likely source of incremental forecast upside and shareholder value to us.

Figure 9: We fcast revenue to grow at a 27% CAGR through FY25



Source: Company reports, Shaw and Partners analysis

Figure 10: We view ARR as the key driver of revenue growth



Source: Company reports, Shaw and Partners analysis

ARR to grow to $49m by FY25

We forecast ARR will increase to $49m by FY25, implying a 3-year organic CAGR of 24%.

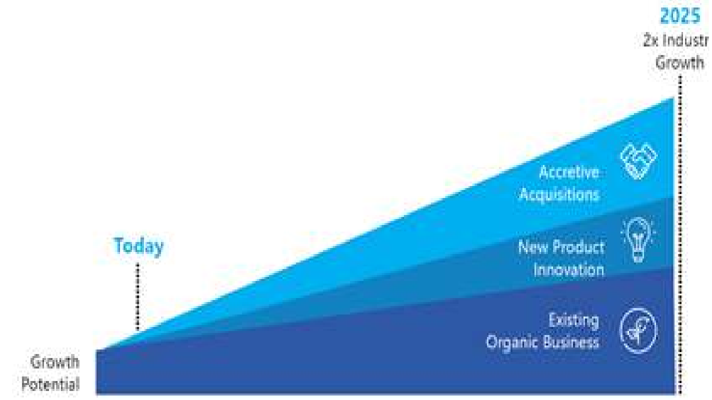
We believe this forecast, puts us a touch below our read of management's FY25 target.

Specifically, DSE target to grow at 2x industry growth through FY25 via a combination of existing organic business, launching new products and accretive M&A. Separately, it has described industry growth as 24% in its investor decks. We estimate this implies an organic ARR target of nearly $50m by FY25, with incremental growth roughly split 50/50 between existing and new products.

Our forecast 24% ARR CAGR implies a very conservative YoY growth decel vs the 70% CAGR achieved over the last 3-years and the FY22 exit rate of 67%. To achieve our FY25 ARR, DSE only needs to add ~$8m incremental ARR per annum vs $10.2m added in FY22.

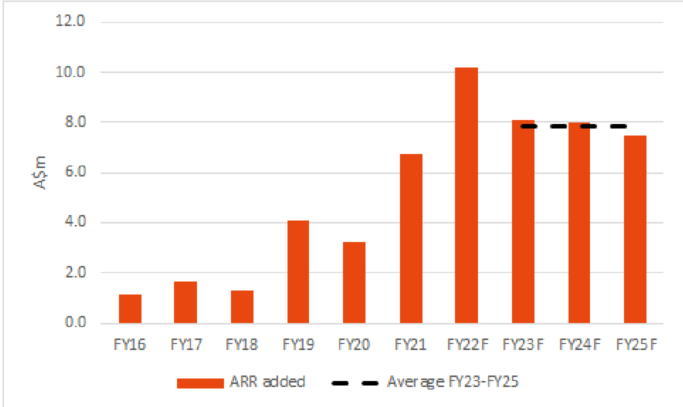
Given the set-up, we consider that expectations have been implicitly de-risked for any potential macro risks that may impact in FY23 and any other factors that may arise (for example, a partner decision to insource, or material partner end-user churn etc).

Figure 11: Management target to grow at 2x industry growth



Source: Company reports, Shaw and Partners analysis

Figure 12: Our ARR fcasts are framed conservatively with upside risk



Source: Company reports, Shaw and Partners analysis

Bottom-up assumptions

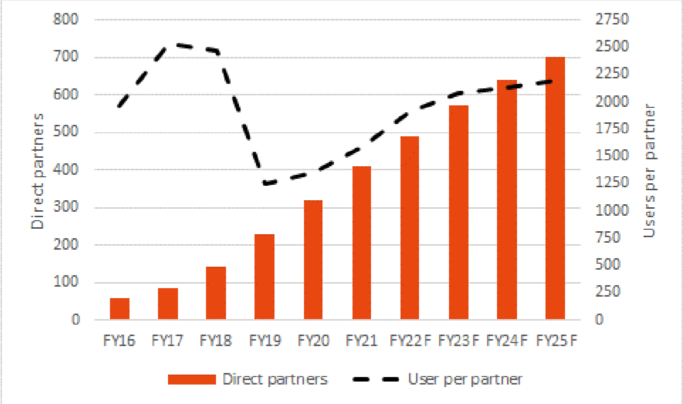
The key bottom-up drivers of DSE's ARR are: 1) the number of transacting partners; 2) the number of users; and 3) the average revenue per user (ARPU).

- **Partners:** Closing FY22, DSE disclosed over 490 direct reseller partners and over 3,200 indirect transacting MSP's. Since FY18 and the shift to email backup, DSE has added ~80 direct reseller partners per annum. Transacting MSP's have grown at an even faster rate, reflecting both their own growth as a category and DSE's increasing profile and product fit with this key channel. Looking ahead, we forecast a healthy but slowing rate of net direct reseller additions. Specifically, we forecast an average +70 added per annum through FY25. As a sense check, assuming a constant ratio of MSPs to resellers, our FY25 reseller forecast assumes ~4,600 transacting MSP's. This would represent approx. 25% of the 18,500 MSP partners that Datto, a relevant global peer, reported prior to its acquisition.

- **Users:** Closing FY22, DSE disclosed 935k users which grew an impressive 44% YoY. Further, this growth comes on the back of 51% growth in FY21 and 50% growth in FY20. Demand for email backup and DSE's increasing presence within larger MSP's is fueling this strong growth. Notwithstanding this impressive track record, our forecasts assume a rapid decel. Specifically, we model YoY growth of 27%, 16% and 13% in FY23, FY24 and FY25 respectively. This is potentially where we have been most conservative.

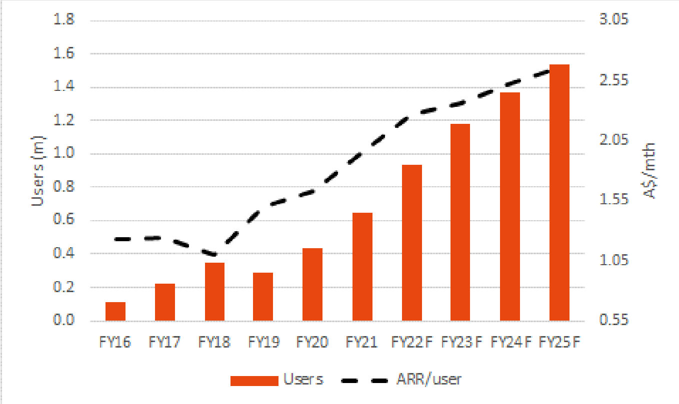
- **ARPU:** Closing FY22, DSE disclosed an ARPU of $2.26 per user. DSE's ARPU has grown strongly over recent years, reflecting its success growing its email backup user base via MSPs, particularly for its higher value archive product. To highlight, the current ARPU of $2.26 compares to between $1-1.20 pre-FY18, when DSE was mostly selling website backup solutions. Looking ahead, we forecast continued growth in ARPU, albeit at a more modest pace. Specifically, we assume 5% CAGR in ARPU through FY25. We implicitly assume DSE will launch new products that will be ARPU enhancing and take-over from archive as the key driver of incremental ARPU growth. The launch of backup for QuickBooks Online (QBO), which will be available from March 2023 is a good example.

Figure 13: We fcast healthy growth in net partners added



Source: Company reports, Shaw and Partners analysis

Figure 14: ... with user growth and ARPU the key drivers



Source: Company reports, Shaw and Partners analysis

Top-down view

From a top-down perspective, we view DSE's ARR as a function of: 1) the contribution from new partners; 2) growth in its existing partners; less 3) any partners that decide to churn.

- **New:** We estimate DSE added +$4.6m ARR from new partners in FY21. This implies ~2/3rds of incremental ARR added was driven by its 'land' motion. Interestingly, we estimate the average ARR per new partner was ~$45k, which was above the average ~$37k ARR per partner in FY21. This is encouraging and highlights that DSE is still landing bigger initial partner deals.
- **Existing:** DSE disclosed net revenue retention of 125% in FY21. We estimate this implies existing partners expanded by ~28% YoY ex-churn. This is also encouraging and highlights that DSE's existing partners still have ample room to keep adding users, upselling existing and cross-selling new products. Highlighting the longer-term potential, we estimate DSE's ARR per transacting MSP is ~US$5,300 vs Datto, a relevant global peer, that was achieving ~US$35k.
- **Churn:** DSE regularly discloses partner churn. Through FY19-FY22 it has averaged between 3-4%, with the trend gradually improving. This is encouraging and highlights existing partners see value in its products and value proposition.

This top-down ARR view, reinforces our belief that our forecasts have been framed conservatively and that the risk lies to the upside through FY25.

To highlight, if we assume DSE continues to land new partners at an initial spend of $46k per annum and we conservatively assume a modest up-tick in churn, then our current forecasts imply a rapid deceleration in NRR. Specifically, this would require NRR to decelerate to 115% in FY23, 112% in FY24 and 109% in FY25.

Another way to look at this, is that our forecast FY23 ARR growth of 32% YoY is likely more than underwritten by trailing FY22 NR, which we expect could land at ~139% when DSE report its FY results later in February.

Figure 15: Top-down view, reinforces that our ARR fcasts are framed conservatively

A$m, Dec year end		FY21	FY22F	FY23F	FY24F	FY25F
Opening	$m	8.5	15.2	25.4	33.5	41.5
New	$m	4.6	4.3	4.3	4.1	3.8
Existing	$m	2.4	6.3	4.5	4.9	4.9
Churn	$m	-0.3	-0.5	-0.8	-1.0	-1.2
Closing	**$m**	**15.2**	**25.4**	**33.5**	**41.5**	**49.0**
YoY Growth	%	80%	67%	32%	24%	18%
ARR from new partners	$	45,902	45,902	45,902	45,902	45,902
NRR	%	125%	139%	115%	112%	109%
Churn	%	-3.0%	-3.0%	-3.0%	-3.3%	-3.5%

Source: Company reports, Shaw and Partners analysis

Gross margins will continue to expand

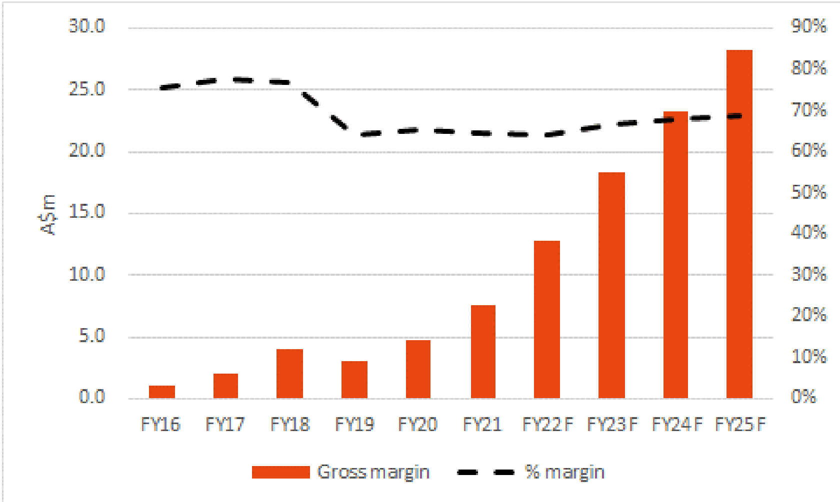
We forecast DSE's gross margins can expand by +460bps to ~69% by FY25.

This forecast assumes a rate of expansion below what was achieved in FY22. To highlight, DSE reported a gross margin of 70% in 4Q22 which is +800bps higher than the 62% reported in 4Q21. Recent improvement has been driven by optimizing its storage tiers and re-platforming its search capability. Looking ahead, we assume scale benefits and a continued focus on efficiency will deliver incremental improvement.

Looking further out, we see significant potential for further gross margin expansion. Our analysis of Datto, a relevant global peer, highlights it was achieving a gross margin of 85% on its subscription revenue before its acquisition. Over-time, we see potential for both scale, efficiency and improved terms with resellers and MSP's as providing upside for DSE.

We forecast a terminal (FY32) gross margin of 82%, which implies a modest discount to what Datto was achieving.

Figure 16: We fcast gross margins to expand by +460bps through FY25



Source: Company reports, Shaw and Partners analysis

Figure 17: Datto was achieving a gross margin on subs revenue of 85%

US$m, Dec year end	FY18	FY19	FY20	FY21
Subscription revenue	333.4	412.2	485.3	577.3
Cost of sales - subs	-72.4	-82.0	-80.4	-85.9
Gross profit	**261.0**	**330.2**	**405.0**	**491.5**
Gross margin	**78%**	**80%**	**83%**	**85%**

Source: Datto, Shaw and Partners analysis

DSE has the flexibility to invest for growth

We forecast Cash EBITDA margins can expand by +155bps to +9.8% compared to likely ~8.3% in FY22.

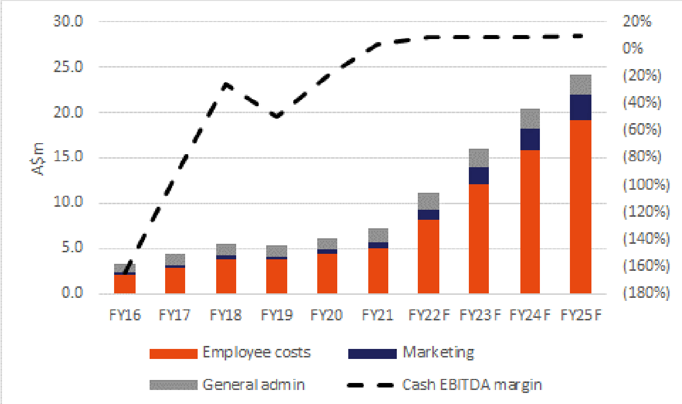
This implies an underlying 26% CAGR in total cash costs, which is consistent with DSE's historical pace of cost growth (FY16-FY22 CAGR 31%).

Underpinning this forecast, we assume employee and marketing costs will grow at 33% and 35% CAGRs respectively, while G&A and other costs will grow at 6%. This implies employee costs, as a % of revenue, will increase by +6ppt through FY25. We expect a more modest increase in marketing costs (+1ppt) while G&A largely drives the operating leverage.

While we expect material gross margin and Cash EBITDA margin expansion over the longer-term, near term we expect DSE to be strategically focused on reinvesting to drive top line growth. Given a large addressable market, a substantial established partner base and attractive unit economics, we concur that this is the right strategy for now.

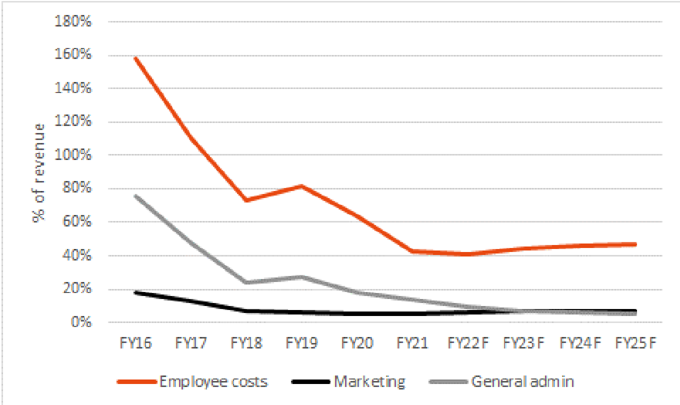
Longer-term, we forecast an FY32 terminal Cash EBITDA margin of 24%. This forecast sits modestly below the 28% that Datto, a relevant global peer, was achieving in 2021 prior to its acquisition.

Figure 18: Cash EBITDA margins expand by +155bps by FY25…



Source: Company reports, Shaw and Partners analysis

Figure 19: …while reinvesting in team expansion & marketing



Source: Company reports, Shaw and Partners analysis

Figure 20: Datto was achieving a Cash EBITDA margin of 28%

US$m, Dec year end	FY18	FY19	FY20	FY21
Revenue	387.4	458.8	518.8	618.7
Total cash costs	-332.9	-374.2	-367.7	-443.2
Cash EBITDA	**54.4**	**84.6**	**151.1**	**175.4**
Margin	**14%**	**18%**	**29%**	**28%**

Source: Datto, Shaw and Partners analysis

We estimate DSE's overhead cost base is split as follows:

- **Employee costs (~73% of FY22 cash overhead):** similar to other software companies, employees are DSEs largest cost. While DSE does not disclose employee costs by function, we estimate headcount is approx. split: ~60% product; ~20% sales & marketing; ~7% support and ~11% admin. Given DSE sells via partners it operates with lower S&M headcount vs software vendors that sell direct. DSE's average cost per head at ~$109k, is also relatively low vs peers. This likely reflects that ~ 1/3rd of employees, mostly the product team, are based in Indonesia, where costs for talent are lower. Note: DSE currently expenses all development costs, making analysis of its accounts relatively easy.
- **Marketing (~11%):** note this is pure marketing expenses only, with marketing related headcount included in employee costs.
- **G&A and other (~17%):** this represents all other costs including professional fees, technology and office expenses. Lease costs are likely included here also.

Focus #1: Multiple demand tailwinds

DSE is leverage to multiple demand tailwinds, which support our forecast growth including:

1. The increasing ransomware threat
2. The need to back up data in the cloud; and
3. Growth in the MSP industry

Data backup can reduce the risk of Ransomware attacks

Data backup is a good way to reduce the impact of Ransomware attacks. If you have a clean backup of your data, and you can prevent ransomware from reaching that backup, then you have the best chance of limiting the impact of any attack and getting back to business.

Ransomware is a type of malware that prevents or limits users from accessing their system, either by locking the system's screen or by locking the users' files until a ransom is paid.

Ransomware attacks are increasing because they are lucrative for the perpetrators.

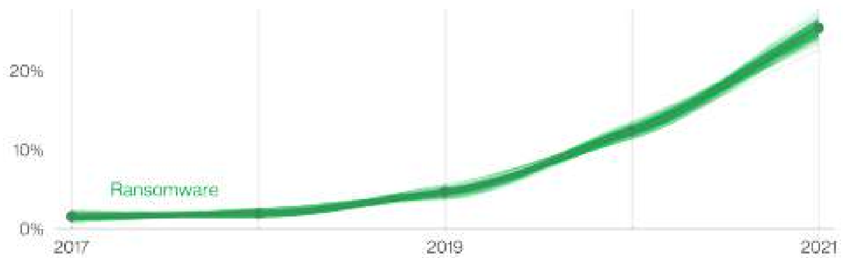
- Verizon's, "Data Breach Investigations Report", found that ransomware breaches increased +13% in 2021 – a rise as big as the last five years combined – and now total 25% of all data breaches.
- Mimecast's, "State of Email Security" report, found that 75% of businesses were impacted by a ransomware attack in 2021, up from 61% in 2020.
- Palo Alto's research highlights, that the average ransomware payment climbed to a record $570,000 during the first half of 2021, up from $312,000 in 2020.

Ransomware attacks are highly disruptive. Mimecast's research found that for companies infected, 25% experienced outages of two to three days, 22% were down for a week, while 15% had outages for up to two weeks.

They can also be high profile. In 2022, the ransomware attacks on Optus and Medibank, which reportedly impacted approx. 10m customers each, are good examples of the sort of situation that any Board, management team or business owner would wish to avoid.

Interestingly, Mimecast found that while 64% of victims felt compelled to pay the ransom, 39% of them still did not get their data back! It also found that only 32% of businesses were able to recover their data without paying a ransom. This highlights the opportunity for modern data back-up software and good back-up practices.

Figure 21: Ransomware attacks now account for 25% of all breaches



Source: Verizon

You still need to back up your data in the cloud

Contrary to initial perceptions, the cloud is serving as a tailwind for data backup.

Firstly, the cloud has introduced an order of magnitude more complexity in customer's data estates, which increases the need for sophisticated hybrid/multicloud data management tools.

Second, major cloud and SaaS vendors operate under a "shared responsibility model". This means, they assume responsibility for securing the physical infrastructure and applications, while the end user is responsible for securing their data, devices, accounts and access management.

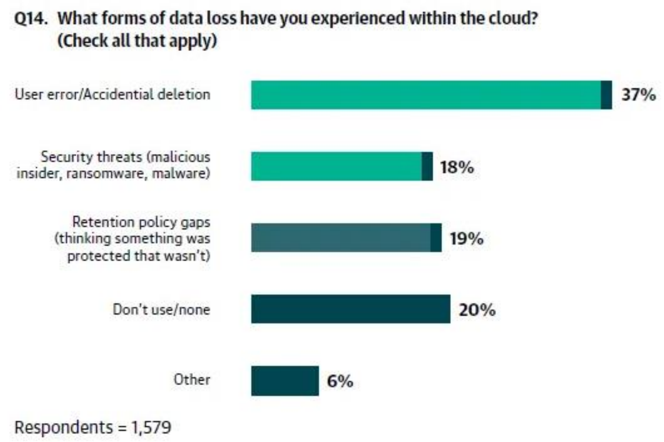
In fact, Section 6b from the Microsoft Services Agreement, specifically recommends customers backup their data using third-party apps and services.

"We strive to keep the Services up and running; however, all online services suffer occasional disruptions and outages, and Microsoft is not liable for any disruption or loss you may suffer as a result. In the event of an outage, you may not be able to retrieve Your Content or Data that you've stored. We recommend that you regularly backup Your Content and Data that you store on the Services or store using Third-Party Apps and Services."

Data loss in the cloud is a common occurrence. Veeam's research, highlights that 80% of survey respondents experienced some form of data loss. Interestingly, 19% of those attributed the reason to retention policy gaps – thinking something was protected when it wasn't.

In short, migrating to the cloud requires sophisticated new backup tools and given a "shared responsibility" model, backing up your data to ensure you can retrieve it in the event of an outage or security incident.

Figure 22: Data loss easily gets lost in the cloud



Source: Veeam

The MSP industry is growing rapidly

DSE is a partner-centric vendor that sells its products via IT resellers and MSPs. As such, it benefits as its MSP partners grow their own end user customer bases.

Gartner define "MSP's deliver services, such as network, application, infrastructure and security, via ongoing and regular support and active administration on customers' premises, in their MSP's data center (hosting), or in a third-party data center."

Essentially, an MSP takes on the responsibility for managing a customer IT environment for a monthly or annual fee.

The MSP industry is growing fast and increasing its share of overall IT spend.

Gartner sized SMB IT spend at ~$1.2TR in 2019 and forecast growth at ~5% per annum. In contrast, Mordor Intelligence, sized the global managed services market at $193bn and forecast it would grow at 12% per annum. These views suggest MSP spend is growing at 2-3x the rate of overall SMB IT spend and that it is still only ~20% penetrated.

Research conducted by ConnectWise, came to a similar conclusion. They found that over 80% of SMB's were devoting ~20% of their annual budget on managed IT services.

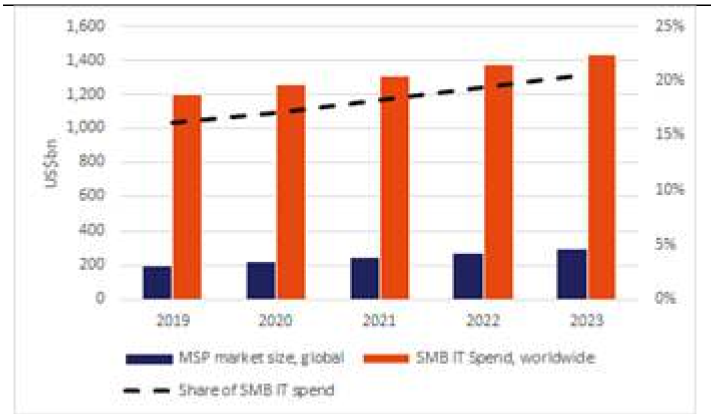
Why are SMBs increasingly gravitating to outsourced IT?

1. IT environments are becoming more complex
2. Security threats are increasing
3. Specialist expertise is required, outside the comfort zone of many SMBs; and
4. It saves them money

These factors were highlighted in Datto's, "SMB Market Report for MSP's 2020".

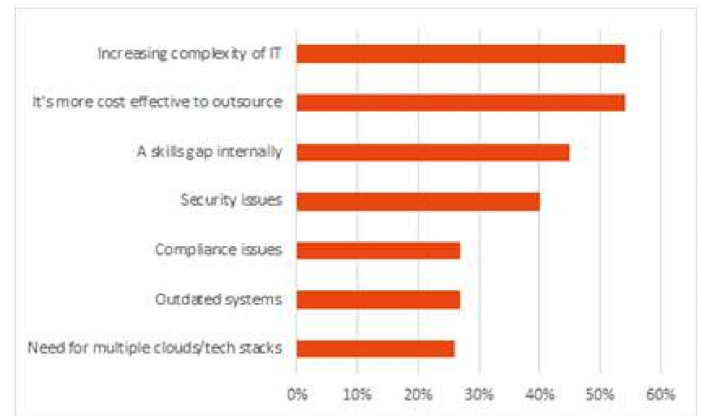
"SMBs that outsource their IT are aware of the complexity of today's IT landscape and simply don't have the skills or time to deal with this alone. They also say it's more cost-effective to work with a third-party IT provider."

Figure 23: MSP spend is growing 2-3x faster than SMB IT spend



Source: Gartner, Mordor Intelligence, Shaw and Partners analysis

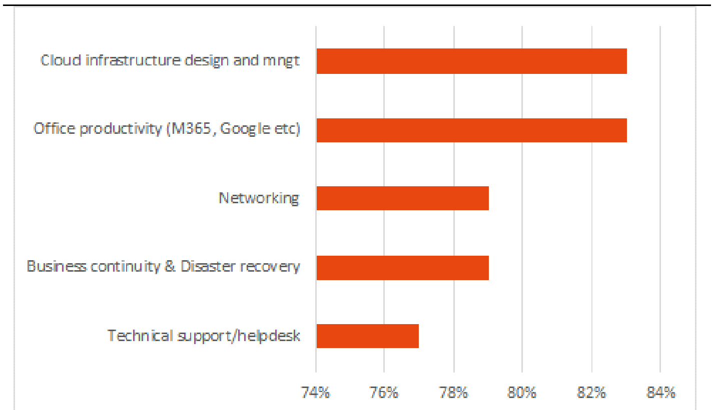
Figure 24: Main reasons SMBs outsource IT



Source: Datto, Shaw and Partners analysis

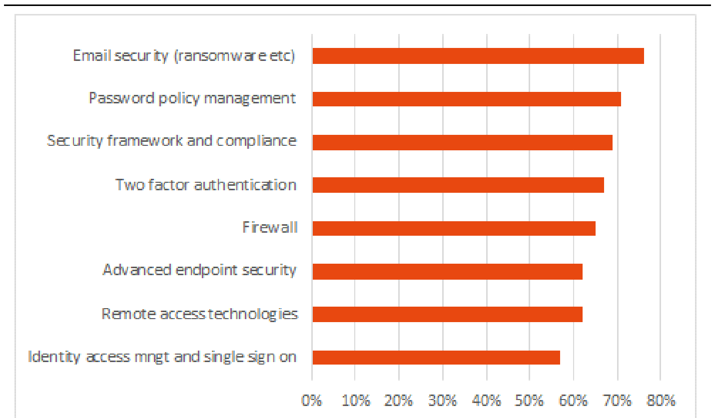
Lastly, DSE's core email backup and archiving solutions overlap nicely, with the top products and services MSP's offer their customers, making them a key relevant vendor.

Figure 25: Top current Managed Services offerings



Source: Datto, Shaw and Partners analysis

Figure 26: Top Managed Security Services offerings



Source: Datto, Shaw and Partners analysis

Focus #2: Partner-led business model

DSE sells its solutions via channel partners, including over 490 direct and over 3,200 indirect managed service providers (MSPs), providing access to over 935k end user customers.

DSE's partner centric approach and substantial established partner base is a key differentiator and attraction for us. We believe it provides scope for DSE to grow into a substantially larger business overtime and allows value to be driven through M&A.

Figure 27: DSE adopts a partner centric approach

Source: Company reports (includes stats as at 3Q22)

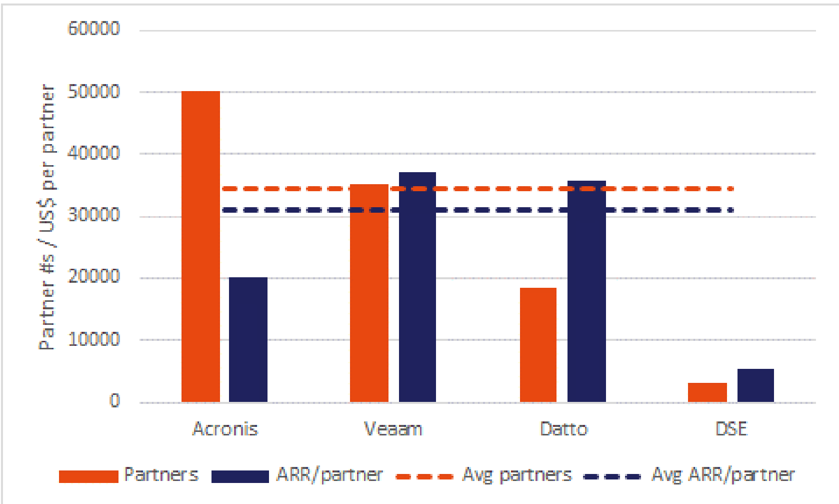
Frost & Sullivan estimated in Datto's IPO documents, that there were approx. 125k MSP's globally. However, if we look at the key SMB/MSP focused vendors, then the average partner count is around ~35k. This is probably a good proxy for the key targets serving the developed markets in North America, EMEA and Asia Pac.

With DSE reporting over 3,200 transacting partners as at FY22, it implies that it has an established presence in ~10% of target partners. DSE's key disclosed partners include: Ingram Micro, Pax8, ALSO, Giacom etc

While we see plenty of potential for DSE's to keep expanding its partner base, we also see potential for it to sell more through those partners. We estimate the key SMB/MSP focused vendors are averaging ~US$30k ARR per partner. In contrast, DSE is achieving ~US$5.3k, implying only ~1/5 of competitor spend. We believe this highlights the opportunity that DSE has to continue to expand the quality of its partners, expand its presence across their estates, and increase the number of products that it sells per partner.

This could be achieved both organically and/or via M&A. The strategic appeal with the latter, is that DSE increasingly has the capacity to leverage its existing partner base to drive synergies as an acquiror, which is something that a target might not have been able to achieve. This is a view consistent with DSE's stated target to grow at 2x industry growth, partly via accretive M&A.

Figure 28: We see potential to grow both partners and ARR/partner



Source: Acronis, Veeam, Datto, Company reports, Shaw and Partners analysis

Focus #3: Seamless partner integration is the secret sauce

Given your average MSP is likely supporting 75-100 SMBs, saving them time and lowering their cost to serve is the key to building support and loyalty with partners.

As such, ensuring the right functionality and experience for the MSP, is equally, if not more important, than the product itself.

Features like MSP portals and integrations with Professional Services Automation platforms (PSAs), help streamline provisioning, billing and support, which increases MSP efficiency and helps them reduce the time it takes to close tickets.

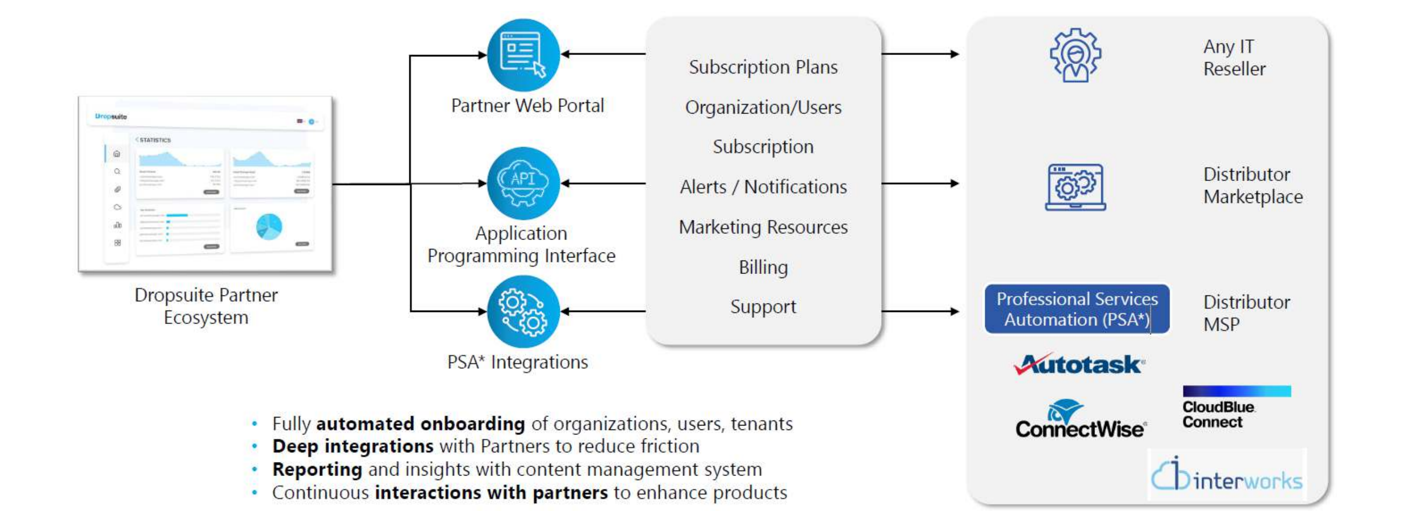
DSE's solutions are fully integrated, out-of-the-box, with leading PSA's including AutoTask and ConnectWise. DSE's analysis highlights that its partner integrations are a key differentiator. It believes that of the 35 credible vendors providing M365 cloud backup globally only 11 offer MSP portals/PSA integrations.

Of note, DSE only announced its AutoTask integration in Sept-22, which suggests the benefit from this partnership is yet to be fully seen in its growth numbers.

The potential benefit for MSP's using Autotask, was highlighted in the release:

"Being able to leverage the Autotask PSA to automatically provision Dropsuite for new clients and their employees not only ensures end-user and company data is protected, but also gives partners increased capabilities for workflow automation and in routing alerts and tickets to the right team members for quick resolution," said Daniel Johnson, CEO of machineLOGIC. "This is a great opportunity for Autotask partners to increase their offerings from a security and data protection standpoint while leveraging automation to scale their MSP practice."

Figure 29: Seamless partner integration is the secret sauce



Source: Company reports

Focus #4: A super-efficient operating model

In 2018, DSE's decision to focus on email back-up and target the MSP channel has been a masterstroke. Since then a combination of strong demand, the rise of MSPs and a super-efficient operating model has allowed DSE to both grow fast whilst being profitable and producing positive cash flow – a rare combo on the ASX for software stocks.

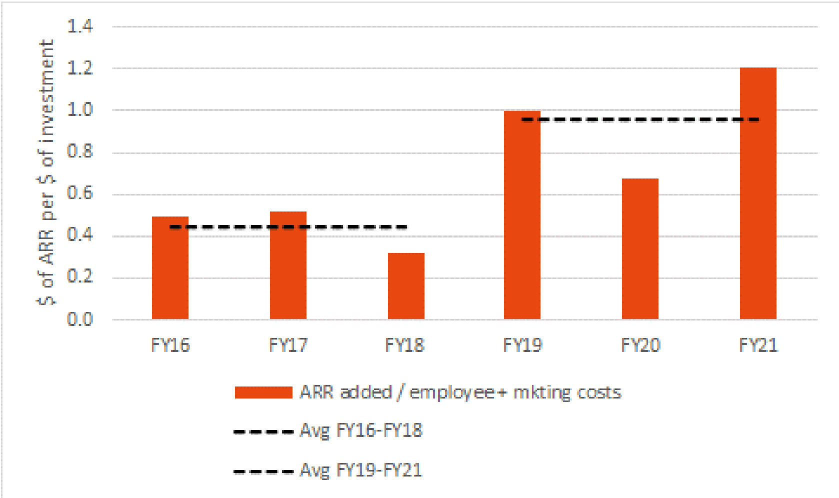
DSE's partner centric model is incredibly efficient.

To highlight, if we simply divide DSE's annual net ARR added by its employee + marketing costs, then we can show it is currently adding over $1 of ARR for every $1 invested. This is a super conservative view though as captures all employee costs – not just S&M. We would argue the metric is between $2-3 of ARR, based purely on S&M investment view.

This analysis also shows that DSE effectively more than doubled its efficiency rate, as it shifted its focus to email back-up and the MSP channel post 2018. Hence, our comment that this was a strategic masterstroke.

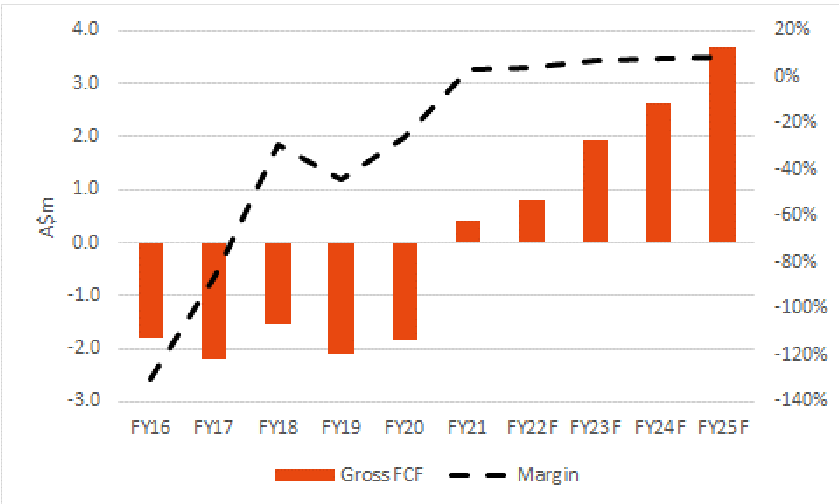
This super-efficient partner-centric operating model has allowed DSE to compound ARR at 70% whilst being profitable and we expect will continue to drive material gross margin and Cash EBITDA margin expansion over the longer-term.

Figure 30: DSE is adding over $1 ARR for every $1 invested…



Source: Company reports, Shaw and Partners analysis

Figure 31: …which has allowed it to both grow fast whilst being cash positive



Source: Company reports, Shaw and Partners analysis

Product overview

DSE's suite of data backup solutions covers websites, email, server, and productivity suites including Microsoft 365 and Google Workplace.

We estimate >80% of revenue is generated from email backup and archiving today.

Core solutions include:

- **Website backup:** is a cloud-based website (and database) backup and monitoring service that allows website owners to automatically backup their website files and databases, monitor website availability and performance, and restore lost or corrupted data with a single click. DSE sell this solution via webhosting partners, like GoDaddy, CrazyDomains etc. End-user ARPUs starts at ~US$2/user.
- **Email backup and archiving:** is a cloud-based email backup and archiving solution that helps businesses securely backup, manage, recover and protect all of their email data. Archiving is a premium solution, that allows businesses to meet regulatory-compliant email preservation requirements. DSE sell this solution via resellers and MSPs like IngramMicro, Strato, ALSO, Pax8 and Giacom etc. End-user ARPUs start at ~$3 and increases to over $4/user with archiving.
- **Microsoft 365:** is a complete cloud-based backup and archiving solution that is especially built for Microsoft 365. It securely backups, manages, recovers, complies and protects all M365 data including One Drive, SharePoint, and Microsoft Teams.
- **Google Workplace:** is a cloud-based backup and archiving solution that is especially built for Google Workplace. It securely backups, manages, recovers, complies and protects Workplace data.

DSE is a recognised leader in email backup. Based on a 2022 SoftwareReview survey, DSE ranked the highest in terms of both product features and satisfaction and vendor experience and capabilities. DSE was ranked #1 in 2021 and 2020 as well.

Figure 32: SoftwareReviews Email Backup Data Quadrant (May 2022)

Source: SoftwareReviews

Capterra gives DSE an overall rating of 4.7 out of 5, based on 24 reviews. Link

G2crowd gives DSE an overall rating of 4.6 out of 5, based on 29 reviews. Link

Competitive landscape

While at a high-level the market for email backup appears highly fragmented, drilling down into features that make life easy for MSP's the field narrows quickly.

We believe DSE primarily competes against SMB/MSP focused vendors, including:

SMB/MSP focused

- **Acronis (Private):** Develops on-premises and cloud software with unique integration of backup, disaster recovery, cybersecurity, and endpoint management. It was founded in 2003. In 2019 it claimed it was targeting $1bn in revenue by 2022. It has 500,000 customers, works with 50,000 partners and has 2,189 employees according to LinkedIn.

- **Datto (Kaseya Inc):** Provides Unified Continuity, Networking, and Business Management solutions and has created a unique ecosystem of MSP partners. It was founded in 2007 and was acquired by Vista in 2017 for $1.5bn which merged it with its PSA platform AutoTask. It was listed in 2020 and subsequently acquired by Kaseya Inc in April 2022 for approx. $6.2bn. In FY21 it reported $618m revenue and grew 19% YoY. It has over 18,500 partners and 1,745 employees according to LinkedIn.

- **Veeam (Private):** Develops backup, disaster recovery and modern data protection software for virtual, physical and multi-cloud infrastructures. It operates across both Enterprise and SMB segments of the market. It was founded in 2006 and is owned by Insight Partners. In FY21 we estimate it had ~$1.3bn in ARR and grew 27% YoY. It has 400,000 customers, works with 35,000 partners and has 5,225 employees according to LinkedIn.

- **AvePoint (AVPT-US):** Is the largest independent software vendor of SaaS solutions to migrate, manage and protect data in Microsoft 365. It was founded in 2001. In FY21, it reported $191m and grew 26% YoY. It claims 9m cloud users and has 1,340 employees according to LinkedIn.

- **Barracuda (KKR):** Provides solutions for email protection, application and cloud security, network security and data protection. It was founded in 2003, then listed in 2013 and was acquired by ThomaBravo in 2017 for $1.6bn. In Aug-22, KKR acquired it from Thoma Bravo for $4bn. It has 200,000 customers, works with 5,000 partners and has 1,836 employees according to LinkedIn.

- **Axcient (Private)**: Its platform manages data recovery, disaster recovery, regulatory compliance, cloud storage, and remote backup service and is provided through MSPs. It was founded in 2006 has 220 employees according to LinkedIn.

- **ConnectWise (Thoma Bravo):** A pioneer in PSA, today it provides software tools, services, and a world-class community of peers that help MSPs grow and manage their business. Founded in 1982, it was acquired by ThomaBravo in 2019. It has 100,000+ IT professional users and has 2,760 employees according to LinkedIn.

- **N-Able (NABL-US):** Makes it easy for MSPs to monitor, manage, and protect their end-customer systems, data, and networks. In 2021, it was spun out of SolarWinds and listed. Combined Silverlake and ThomaBravo control ~60% of the register. In FY21 it reported $346m revenue and grew 15% YoY. It has 25,000 customers and 1,303 employees according to LinkedIn.

- **ArcServe (Marlin/TA):** Is a provider of data protection, replication and recovery solutions for enterprise and mid-market businesses. In 2021 it merged with Storage Craft and claimed to be a Top 5 pure-play provider of data protection technologies sold exclusively through channel partners. It has 235,000 customers, works with 19,000 partners and has 642 employees according to LinkedIn.

- **Skykick (Private):** Provides solutions designed to make it easy and efficient for IT partners to migrate, backup, and manage their customers in the cloud. It was founded in 2011 and has 30,000 partners and 317 employees according to LinkedIn.

- **Altaro (HornetSecurity):** Provides easy-to-use backup solutions for managed service providers (MSPs), IT resellers and IT departments. Founded in 2009, it was acquired by Hornetsecurity in 2021. In 2018, it welcomed its 40,000 business customer and 9,000 partner. It had 110+ employees in 2019 according to its website.

Enterprise focused

Gartner tracks more than 30 vendors in the Enterprise backup and recovery market.

In addition to Veeam, other key enterprise focussed vendors include:

- **Commvault (CVLT-US):** Provides an enterprise-level data platform that contains modules to back up, restore, archive, replicate, and search data. It has four product lines: Complete backup and recovery, Hyperscale integrated appliances, Orchestrate disaster recovery, and Activate analytics. It was founded in 1996. In FY22, it reported $769m revenue and grew 6% YoY. It has 2,927 employees according to LinkedIn.
- **Rubrik (Private):** Provides data management services such as the backup and recovery, targeting enterprises that run hybrid cloud environments. It was founded in 2014 claimed a $600m revenue run-rate in 2020 and has 2,946 employees according to LinkedIn.
- **Cohesity (Private):** Develops software that allows IT professionals to backup, manage and gain insights from their data across multiple systems or cloud providers. Their products also include anti-ransomware features, Disaster Recovery-as-a-Service, and SaaS management. It was founded in 2013, claimed a $200m revenue run-rate in 2019 and has 2,299 employees according to LinkedIn.
- **Druva (Private):** Provides SaaS-based data protection and management products. It was founded in 2008, claimed a $100m revenue run-rate in 2019 and has 1,227 employees according to LinkedIn.

Figure 33: Gartner Magic Quadrant for Enterprise Backup & Recovery (2022)

Source: Company reports, Shaw and Partners analysis

Appendix 1 – Financial statements

Figure 34: Profit and Loss

A$m, Dec year end		FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F	FY25F
Sales revenue	$m	1.3	2.6	5.2	4.7	7.0	11.7	20.0	27.5	34.5	41.1
Other	$m	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Operating revenue	**$m**	**1.4**	**2.6**	**5.3**	**4.7**	**7.1**	**11.7**	**20.0**	**27.5**	**34.5**	**41.1**
Growth YoY	%	na	*85%*	*106%*	*(11%)*	*51%*	*65%*	*71%*	*37%*	*25%*	*19%*
Cost of sales	$m	(0.3)	(0.6)	(1.2)	(1.7)	(2.5)	(4.2)	(7.2)	(9.2)	(11.1)	(12.9)
Gross margin	**$m**	**1.0**	**2.0**	**4.1**	**3.0**	**4.6**	**7.5**	**12.8**	**18.3**	**23.3**	**28.2**
Margin %	*%*	*76%*	*77%*	*77%*	*64%*	*65%*	*64%*	*64%*	*67%*	*68%*	*69%*
Overhead expensed	$m	(2.8)	(3.9)	(5.0)	(5.4)	(6.1)	(7.2)	(11.2)	(16.0)	(20.3)	(24.2)
Operating EBITDA	**$m**	**(1.7)**	**(1.9)**	**(0.9)**	**(2.3)**	**(1.4)**	**0.4**	**1.7**	**2.3**	**3.0**	**4.0**
Margin %	%	*(126%)*	*(74%)*	*(17%)*	*(50%)*	*(20%)*	*3%*	*8%*	*8%*	*9%*	*10%*
SBP	$m	0.0	0.0	0.0	(0.0)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
Other non-operating	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported EBITDA	**$m**	**(1.7)**	**(1.9)**	**(0.9)**	**(2.3)**	**(1.7)**	**0.2**	**1.4**	**2.0**	**2.6**	**3.6**
Total D&A	$m	(0.2)	(0.3)	(0.6)	(0.8)	(0.5)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Reported EBIT	$m	**(1.9)**	**(2.2)**	**(1.5)**	**(3.2)**	**(2.2)**	**0.2**	**1.4**	**1.9**	**2.5**	**3.5**
Net interest expense	$m	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Profit before tax	$m	**(1.9)**	**(2.2)**	**(1.5)**	**(3.1)**	**(2.1)**	**0.2**	**1.4**	**2.0**	**2.6**	**3.5**
Tax	$m	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	(0.5)	(0.6)	(0.8)
NPAT (pre-significant items)	$m	**(1.9)**	**(2.2)**	**(1.5)**	**(3.1)**	**(2.1)**	**0.2**	**1.1**	**1.5**	**2.0**	**2.7**
Add back acquired amortisation (a-ta	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPATA	$m	**(1.9)**	**(2.2)**	**(1.5)**	**(3.1)**	**(2.1)**	**0.2**	**1.1**	**1.5**	**2.0**	**2.7**
Growth YoY %	%	na	*12%*	*(33%)*	*116%*	*(32%)*	*(108%)*	*504%*	*39%*	*30%*	*38%*
Significant items	$m	(5.4)	0.0	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	0.0	0.0	0.0
Reported profit	$m	**(7.4)**	**(2.2)**	**(1.5)**	**(3.1)**	**(2.1)**	**(0.0)**	**1.1**	**1.5**	**2.0**	**2.7**
Normalised diluted EPS	**cps**	**(0.004)**	**(0.004)**	**(0.003)**	**(0.006)**	**(0.004)**	**0.000**	**0.002**	**0.002**	**0.003**	**0.004**
Growth YoY %	%	na	na	na	*111%*	*(39%)*	*(108%)*	*448%*	*37%*	*28%*	*36%*

Source: Company reports, Shaw and Partners analysis

Figure 35: Cash flow statement

A$m, Dec year end		FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F	FY25F
Operating EBITDA	$m	(1.7)	(1.9)	(0.9)	(2.3)	(1.4)	0.4	1.7	2.3	3.0	4.0
Net working capital	$m	0.5	0.2	(0.1)	0.3	(0.4)	0.1	(0.8)	(0.3)	(0.3)	(0.3)
Gross operating cash flow	**$m**	**(1.3)**	**(1.7)**	**(1.0)**	**(2.0)**	**(1.8)**	**0.5**	**0.9**	**2.0**	**2.7**	**3.8**
Net interest	$m	(0.0)	(0.0)	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Income tax paid	$m	0.0	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.5)	(0.6)	(0.8)
Net operating cash flow	**$m**	**(1.3)**	**(1.7)**	**(1.0)**	**(2.0)**	**(1.8)**	**0.5**	**0.7**	**1.6**	**2.2**	**3.0**
Adjustments / Grants	$m	0.0	(2.4)	0.0	0.0	0.0	(0.2)	(0.0)	0.0	0.0	0.0
Reported operating cashflow	$m	**(1.3)**	**(4.1)**	**(1.0)**	**(2.0)**	**(1.8)**	**0.3**	**0.6**	**1.6**	**2.2**	**3.0**
PP&E	$m	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Intangibles	$m	(0.5)	(0.5)	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	$m	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investing cash flow	**$m**	**4.8**	**(0.5)**	**(0.5)**	**(0.1)**	**(0.0)**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**
Net equity	$m	0.4	4.5	0.0	0.0	2.9	18.9	0.0	0.0	0.0	0.0
Net debt	$m	1.4	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leases	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	$m	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financing cash flow	**$m**	**1.8**	**4.2**	**0.0**	**0.0**	**2.9**	**18.9**	**0.0**	**0.0**	**0.0**	**0.0**
Opening cash	$m	0.0	5.3	5.0	3.5	1.4	2.5	21.6	22.3	23.8	25.9
Change in cash (from above)	$m	5.3	(0.4)	(1.5)	(2.1)	1.1	19.1	0.6	1.5	2.1	2.9
Other	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Closing cash balance	**$m**	**5.3**	**5.0**	**3.5**	**1.4**	**2.5**	**21.6**	**22.3**	**23.8**	**25.9**	**28.8**
Gross operating cashflow	**$m**	**(1.3)**	**(1.7)**	**(1.0)**	**(2.0)**	**(1.8)**	**0.5**	**0.9**	**2.0**	**2.7**	**3.8**
Capex	$m	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Capitalised development	$m	(0.5)	(0.5)	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lease costs	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross free cash flow	**$m**	**(1.8)**	**(2.2)**	**(1.5)**	**(2.1)**	**(1.8)**	**0.4**	**0.8**	**1.9**	**2.6**	**3.7**
Growth YoY	%	na	na	na	37%	(12%)	(122%)	98%	144%	35%	40%
Margin %	%	(131%)	(85%)	(29%)	(45%)	(26%)	3%	4%	7%	8%	9%
Net free cash flow	**$m**	**(1.8)**	**(2.2)**	**(1.5)**	**(2.1)**	**(1.8)**	**0.4**	**0.6**	**1.5**	**2.1**	**2.9**
Growth YoY	%	na	na	na	40%	(11%)	(122%)	51%	149%	36%	40%
Margin %	%	(131%)	(85%)	(28%)	(44%)	(26%)	3%	3%	6%	6%	7%

Source: Company reports, Shaw and Partners analysis

Figure 36: Balance sheet

A$m, Dec year end		FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F	FY25F
Cash and cash equivalents	$m	5.3	5.0	3.5	1.4	2.5	21.6	22.3	23.8	25.9	28.8
Trade and other receivables	$m	0.3	0.5	0.8	0.8	1.4	2.2	3.9	5.3	6.6	7.9
Prepayments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	$m	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Total current assets	$m	**5.8**	**5.5**	**4.4**	**2.3**	**4.0**	**24.0**	**26.5**	**29.4**	**32.9**	**37.0**
Property, plant and equipment	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Intangible assets	$m	1.1	1.4	1.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other	$m	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total non-current assets	$m	**1.2**	**1.4**	**1.3**	**0.6**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**
Total assets	$m	**6.9**	**6.9**	**5.7**	**2.9**	**4.1**	**24.1**	**26.6**	**29.6**	**33.0**	**37.2**
Trade and other payables	$m	2.6	0.4	0.6	1.0	1.3	2.0	2.9	4.0	5.0	5.9
Provisions		0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowings	$m	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	$m	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.4
Deferred consideration	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total current liabilities	**$m**	**3.0**	**0.6**	**0.7**	**1.0**	**1.4**	**2.2**	**3.2**	**4.4**	**5.4**	**6.5**
Borrowings	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred consideration	$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	$m	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total non-current liabilities	**$m**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Total liabilities	**$m**	**3.0**	**0.6**	**0.8**	**1.1**	**1.4**	**2.2**	**3.2**	**4.4**	**5.5**	**6.5**
Total equity	**$m**	**4.0**	**6.3**	**5.0**	**1.8**	**2.6**	**21.9**	**23.3**	**25.2**	**27.5**	**30.7**
Gross debt	$m	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash (debt)	$m	5.0	5.0	3.5	1.4	2.5	21.6	22.3	23.8	25.9	28.8
Net working capital	$m	0.0	0.0	0.1	(0.2)	0.0	(0.0)	0.8	1.0	1.3	1.6

Source: Company reports, Shaw and Partners analysis

Appendix 2 – Board and Management

DSE has an experienced CEO and Board with long and stable tenure. Charif El-Ansari, CEO & Director, was previously a founding member of Google Singapore. Theo Hnarakis, Non-Exec Chair, was the Managing Director & CEO of Melbourne IT until 2013.

Through 2022, DSE has significantly strengthened its management team, bringing in experienced leaders into all key functional roles including: Finance, Technology, S&M, Support and HR.

In our experience, when a relatively small software company reaches a point where it can bring in talented executives - good things happen. We are excited to see what the new team can deliver over the next several years.

Figure 37: Board and senior management

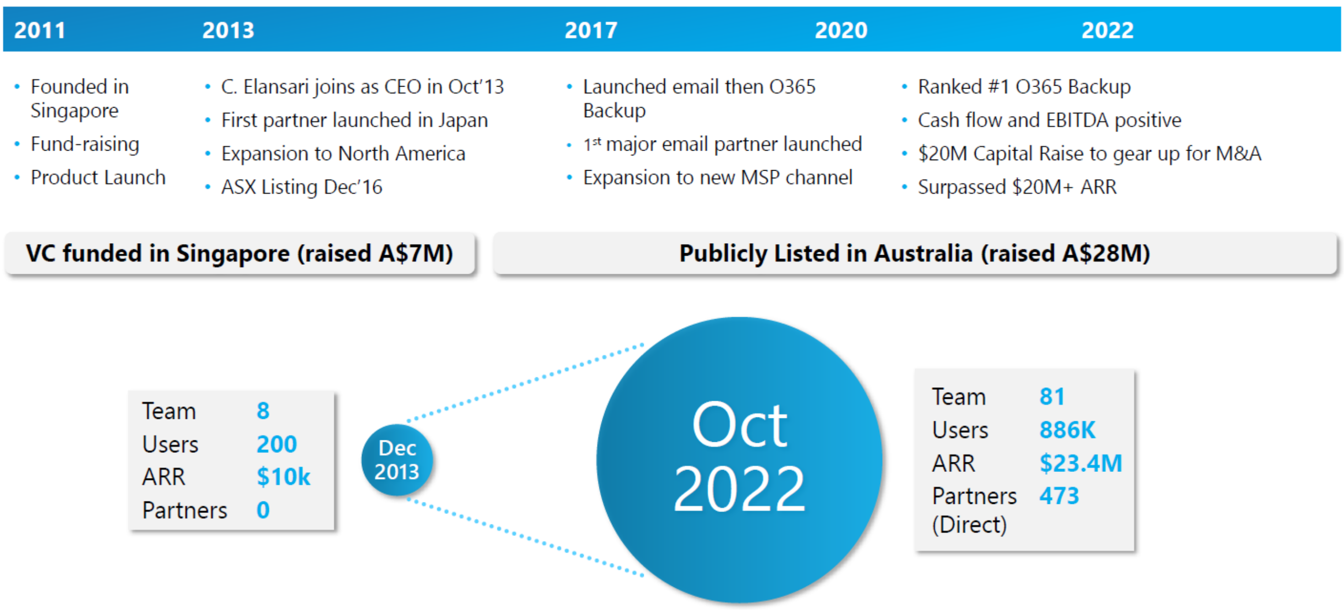
Board	Role	Joined
Theo Hnarakis	Non-Executive Chairman	2016
Bruce Tonkin	Non-Executive Director	2017
Charif El-Ansari	Chief Executive Officer & Director	2013

Senior Management	Role	Joined
Charif El-Ansari	Chief Executive Officer & Director	2013
Ridley Ruth	Chief Operating Officer	2014
Bill Kyriacou	Chief Financial Officer	2022
Manoj Kalyanaraman	Chief Technology Officer	2022
Eric Roach	SVP, Global Channel Sales and Marketing	2022
Jamie Deveaux	Head of Channel Sales ANZ	2022
Rick Frey	Global Support Manager	2022
Frederique vsn de Poll	Global Head of HR	2022

Source: Company reports, LinkedIn

Appendix 3 – Company history

Figure 36: Timeline and key events



Source: Company reports

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

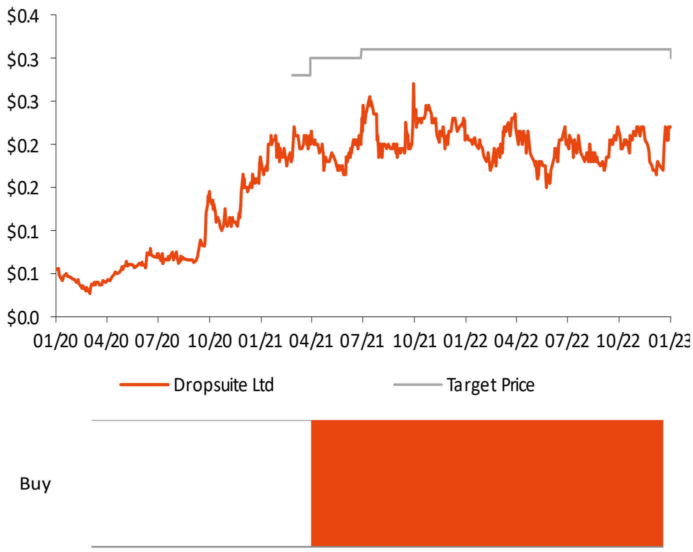
RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	115	88%
Hold	15	12%
Sell	0	0%

History of Investment Rating and Target Price - Dropsuite Ltd

Date	Closing Price ($)	Target Price ($)	Rating
23-Jan-23	0.22	0.30	Buy
20-Jul-21	0.22	0.31	Buy
20-Apr-21	0.20	0.30	Buy
19-Mar-21	0.19	0.28	Buy



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