

19 January 2024

Dropsuite Limited (DSE)**BUY****Share Price: A\$0.29****Reinvesting profits to accelerate future growth rates****Target Price: A\$0.32**

DSE delivered another strong quarter of growth, with ARR up 35% on pcp in AUD terms, driven by continued gains in ARPU and net users. While DSE's intent to increase its growth opex in CY24 has prompted cuts to our near-term EPS estimates, we remain upbeat about the company's longer-term prospects.

Positive 4Q23 update

- DSE has reported another solid quarter, with 4Q23 ARR increasing 35% on pcp to \$34.3m. The result was driven by a 9% jump in AUD ARPU (a 2% sequential decline due to a higher AUD) and 24% increase in active users.
- While the 4Q23 GP margin of 70% was the key positive surprise (Petra Capital's expectation was 68.5%), it is anticipated that the implied incremental CY23 earnings benefit will be muted by higher-than-expected opex.
- DSE finished CY23 with net cash of \$24.3m, up \$2m on pcp, driven by Op. CF of \$2.3m, with the latter being in line with our \$2.2m forecast, and equating to a greater than 2x increase on pcp.

Higher opex to crimp near-term earnings growth

- While DSE's outlook commentary and growth strategy are broadly unchanged, guidance for CY24 profitability and cash flow in line with CY23 does imply much higher growth opex (i.e., commensurate with revenue growth).
- We are confident these growth initiatives (i.e., increased sales reach and new products such as Partner Serv) will continue to underpin market share gains and expect operating leverage to become more evident over time.

Downward revision to CY24 and CY25 forecasts

- We have cut our CY23, CY24, and CY25 EPS estimate by 1%, 24% and 56%, respectively. The key drivers are a (i) modest uplift to CY24 and CY25 sales (both ARPU and users), and (ii) higher CY24 and CY25 opex.

Reiterate Buy rating and \$0.32ps TP

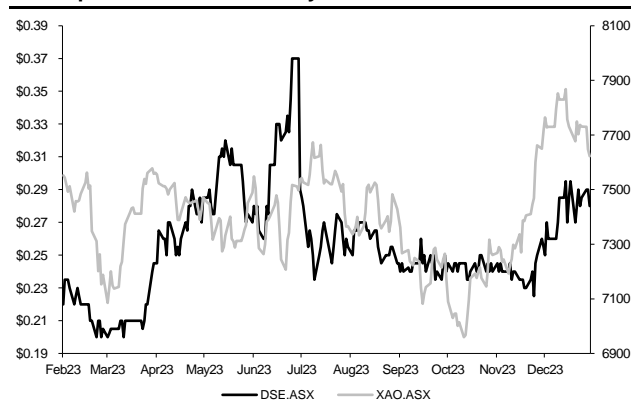
- We believe DSE has the products, business model and capital to exceed system growth (~25% p.a.) within its target market (data back-up and archiving) over the next several years.
- Given DSE's ability to leverage its strong balance sheet to supplement what we expect to be a strong multi-year organic growth profile with M&A, we reiterate our Buy rating and \$0.32ps TP (4.9x CY24 EV/sales).
- Consistent with DSE's partner-led business model and growth strategy, the key share price catalysts include (i) better-than-expected sales, (ii) a sooner-than-expected normalisation in growth opex, and (iii) strategic M&A.

Company Data

| | |
|--------------------------------|------------|
| Shares – ordinary (M) | 696.1 |
| Dilution (M) | 19.8 |
| Total (fully diluted) (M) | 715.9 |
| Market capitalisation (\$M) | 198.4 |
| 12-month low/high (\$) | 0.2 - 0.39 |
| Average monthly turnover (\$M) | 2.0 |
| GICS Industry | Software |

Financial Summary (fully diluted/normalised)

| Year End December | 2021A | 2022A | 2023F | 2024F | 2025F |
|---------------------|-------|--------|-------|-------|-------|
| Revenue (A\$m) | 11.7 | 20.7 | 30.8 | 41.9 | 53.2 |
| Costs (A\$m) | 11.7 | 19.4 | 28.7 | 39.7 | 50.8 |
| EBITDA (A\$m) | 0.0 | 1.3 | 2.1 | 2.3 | 2.5 |
| NPAT (A\$m) | 0.0 | 1.5 | 2.0 | 2.1 | 2.1 |
| EPS (¢) | 0.0 | 0.2 | 0.3 | 0.3 | 0.3 |
| EPS Growth (%) | 98.7 | >100.0 | 34.9 | 1.5 | 1.8 |
| PER (x) | nm | 137.3 | 100.7 | 98.2 | 96.5 |
| FCF (A\$m) | 0.2 | 0.9 | 2.1 | 0.9 | 1.3 |
| FCF per share (cps) | 0.0 | 0.1 | 0.3 | 0.1 | 0.2 |
| Price to FCF (x) | 912.1 | 234.3 | 94.8 | 218.4 | 160.1 |
| EV (A\$m) | 162.8 | 177.0 | 178.5 | 177.9 | 178.8 |
| EV/EBITDA | nm | 141.5 | 84.5 | 79.0 | 72.9 |
| Payout ratio (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend (¢) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

DSE – performance over one year**Disclosure and Disclaimer**

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

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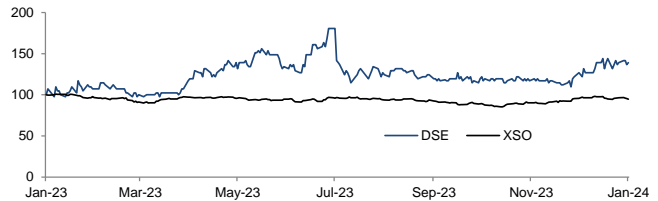
Analysis

Dropsuite Year End December

MARKET DATA

| | | |
|---------------------------|------|------------|
| Recommendation | | Buy |
| Price | A\$ | 0.29 |
| Price target (12-month) | A\$ | 0.32 |
| 52 week high / low | A\$ | 0.2 - 0.39 |
| Market capitalisation | A\$m | 198.4 |
| Shares on issue (basic) | no. | 696.1 |
| Performance rights | no. | 19.8 |
| Other equity | no. | 0.0 |
| Shares on issue (diluted) | no. | 715.9 |

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

| | 2021A | 2022A | 2023F | 2024F | 2025F |
|------------------------------------------|------------|--------------|--------------|--------------|--------------|
| Underlying net profit | \$m | (0.0) | 1.5 | 2.0 | 2.1 |
| Reported net profit | \$m | (0.0) | 1.5 | 2.0 | 2.1 |
| Reported EPS (diluted) | ¢ | (0.0) | 0.2 | 0.3 | 0.3 |
| Normalised EPS (diluted) | ¢ | (0.0) | 0.2 | 0.3 | 0.3 |
|Growth | % | 98.7 | >100.0 | 34.9 | 1.5 |
| Normalised diluted PER | x | nm | 137.3 | 100.7 | 98.2 |
| Adjusted Op. CF per share | ¢ | 0.0 | 0.1 | 0.3 | 0.2 |
| Adjusted FCF per share | ¢ | 0.0 | 0.1 | 0.3 | 0.2 |
| Price to free cash flow per share | x | 912.1 | 234.3 | 94.8 | 218.4 |
| Free cash flow yield | % | 0.1 | 0.4 | 1.1 | 0.5 |

Dividend per share

| | | | | | |
|--------------|---|-----|-----|-----|-----|
| | ¢ | 0.0 | 0.0 | 0.0 | 0.0 |
| Payout ratio | % | 0.0 | 0.0 | 0.0 | 0.0 |
| Yield | % | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking | % | 0.0 | 0.0 | 0.0 | 0.0 |

Enterprise value

| | | | | | |
|---------------------|-----|-------|-------|-------|-------|
| | \$m | 162.8 | 177.0 | 178.5 | 177.9 |
| EV/EBITDA | x | nm | 141.5 | 84.5 | 79.0 |
| EV/EBIT | x | nm | 148.6 | 91.3 | 88.9 |
| Price to book (NAV) | x | 8.9 | 8.1 | 7.4 | 7.0 |
| Price to NTA | x | 8.9 | 8.1 | 7.4 | 7.0 |

KEY RATIOS

| | 2021A | 2022A | 2023F | 2024F | 2025F |
|------------------------------|-------|-------|-------|-------|-------|
| EBITDA margin | % | 0.0 | 6.0 | 6.9 | 5.4 |
| EBIT margin | % | (0.3) | 5.8 | 6.3 | 4.8 |
| Underlying net profit margin | % | (0.3) | 7.0 | 6.5 | 4.9 |
| Return on average equity | % | 13.1 | 16.9 | 18.5 | 19.4 |
| Return on average assets | % | 12.4 | 16.3 | 18.2 | 19.4 |

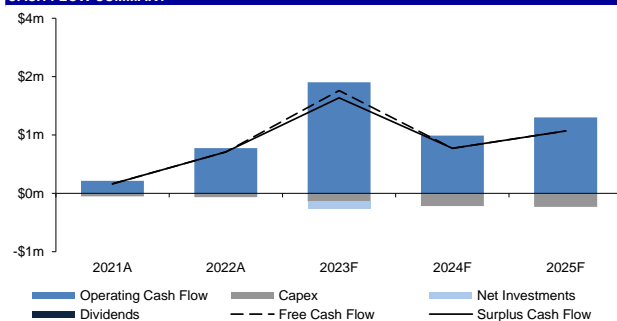
Net tangible assets per share

| | | | | | |
|-------------------------------------------|-----|--------|--------|--------|--------|
| | ¢ | 3.2 | 3.5 | 3.8 | 4.1 |
| Net debt /(cash) | \$m | (21.6) | (22.3) | (24.3) | (25.2) |
| Interest cover (EBIT / net interest) | x | n/a | n/a | n/a | n/a |
| Leverage (net debt / EBITDA) | x | n/a | n/a | n/a | n/a |
| Gearing (net debt / net debt plus equity) | % | n/a | n/a | n/a | n/a |

DUPONT ANALYSIS

| | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------------|----------|-------------|-------------|-------------|-------------|
| Net Profit Margin | % | 6.9 | 9.1 | 10.8 | 12.5 |
| Asset Turnover | x | 1.5 | 1.5 | 1.4 | 1.3 |
| Return on Assets | % | 10.4 | 13.3 | 14.7 | 15.7 |
| Financial Leverage | x | 1.3 | 1.3 | 1.3 | 1.2 |
| Return on Equity | % | 13.1 | 16.9 | 18.5 | 19.4 |

CASH FLOW SUMMARY



PROFIT AND LOSS

| | 2021A | 2022A | 2023F | 2024F | 2025F |
|-----------------------------|------------|--------------|------------|------------|------------|
| Total revenue | \$m | 11.7 | 20.7 | 30.8 | 41.9 |
| EBITDA | \$m | 0.0 | 1.3 | 2.1 | 2.3 |
| Depreciation & amortisation | \$m | 0.0 | 0.1 | 0.2 | 0.3 |
| EBIT | \$m | (0.0) | 1.2 | 2.0 | 2.2 |
| Net interest | \$m | (0.0) | (0.3) | (0.7) | (0.6) |
| Non-operating income | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Profit | \$m | (0.0) | 1.5 | 2.7 | 2.8 |
| Tax expense | \$m | 0.0 | 0.0 | 0.7 | 0.7 |
| Minorities | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported NPAT | \$m | (0.0) | 1.5 | 2.0 | 2.1 |
| Significant items | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Underlying NPAT | \$m | (0.0) | 1.5 | 2.0 | 2.1 |

GROWTH PROFILE

| | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------|-------|--------|--------|-------|-------|
| Operating revenue | % | 64.6 | 76.8 | 49.0 | 35.9 |
| EBITDA | % | >100.0 | >100.0 | 69.0 | 6.5 |
| EBIT | % | 98.4 | >100.0 | 64.1 | 2.4 |
| Operating NPAT | % | 98.5 | >100.0 | 37.3 | 3.4 |
| Normalised EPS | % | 98.7 | >100.0 | 34.9 | 1.5 |
| DPS | % | 0.0 | 0.0 | 0.0 | 0.0 |

BALANCE SHEET

| | 2021A | 2022A | 2023F | 2024F | 2025F |
|-----------------------------|------------|-------------|-------------|-------------|-------------|
| Cash | \$m | 21.6 | 22.3 | 24.3 | 25.2 |
| Receivables | \$m | 2.2 | 4.1 | 5.9 | 8.4 |
| Inventory | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | \$m | 0.2 | 0.4 | 0.7 | 0.7 |
| Current | \$m | 24.0 | 26.8 | 30.9 | 34.3 |
| Prop, plant & equip | \$m | 0.0 | 0.1 | 0.2 | 0.2 |
| Goodwill | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | \$m | 0.1 | 0.1 | 0.4 | 0.5 |
| Non current | \$m | 0.1 | 0.1 | 0.6 | 0.7 |
| Total assets | \$m | 24.1 | 26.9 | 31.5 | 38.8 |
| Accounts Payable | \$m | 2.0 | 2.5 | 3.9 | 5.2 |
| Borrowings | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | \$m | 0.2 | 0.2 | 0.7 | 0.8 |
| Total liabilities | \$m | 2.2 | 2.7 | 4.5 | 7.7 |
| Net assets | \$m | 21.9 | 24.2 | 27.0 | 29.0 |
| Equity | \$m | 21.9 | 24.2 | 27.0 | 29.0 |
| Minorities | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholder's equity | \$m | 21.9 | 24.2 | 27.0 | 31.1 |
| Shares on issue | m | 681.9 | 689.9 | 701.9 | 715.9 |

CASH FLOW

| | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------------------------|------------|--------------|--------------|--------------|--------------|
| EBITDA | \$m | 0.0 | 1.3 | 2.1 | 2.3 |
| Change in working capital | \$m | (0.0) | (1.4) | (0.4) | (1.1) |
| Net interest | \$m | 0.0 | 0.2 | 0.7 | 0.6 |
| Tax paid | \$m | 0.0 | 0.0 | (0.1) | (0.7) |
| Other | \$m | 0.3 | 0.9 | 0.0 | 0.0 |
| Operating cash flow | \$m | 0.3 | 0.9 | 2.3 | 1.6 |
| Capital expenditure | \$m | (0.1) | (0.1) | (0.2) | (0.3) |
| Acquisitions/divestment/other | \$m | 0.0 | 0.0 | (0.2) | 0.0 |
| Investing cash flow | \$m | (0.1) | (0.1) | (0.3) | (0.3) |
| Free cash flow | \$m | 0.2 | 0.9 | 2.1 | 0.9 |
| Equity | \$m | 18.9 | 0.0 | 0.0 | 0.0 |
| Increase / (decrease) in borrowings | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend/other | \$m | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing cash flow | \$m | 18.9 | 0.0 | 0.0 | 0.0 |
| Net cash flow | \$m | 19.1 | 0.9 | 2.0 | 0.9 |

Source: Petra Capital



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