

ELMO SOFTWARE LTD

HOLD

Strong Finish To FY19

Software & Services / Application Software

26 July 2019

COMPANY UPDATE

Ticker	ELO
Stock Price	\$7.43
Target Price	\$7.54
Forecast Capital Return	1.5%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	1.5%

Company market data

Market Cap.	\$480.1m
Free Float (%)	35.9
Enterprise Value	\$457.4m
52 Week Range	\$4.49 - \$8.08
Shares Out.	64.6m
Avg. Daily Value	\$0.2m

Estimates changes	2018a	2019e	2020e	2021e
Core NPAT - <i>old</i>	(2.9)	(8.6)	(3.4)	0.5
Core NPAT - <i>new</i>	(2.9)	(9.6)	(7.4)	(5.1)
% Change	0.0	11.3	119.8	(1,082.3)
Core EPS dil. (€) - <i>old</i>	(198.8)	(13.3)	(5.2)	0.8
Core EPS dil. (€) - <i>new</i>	(198.8)	(14.8)	(11.5)	(8.0)
% Change	0.0	11.3	119.8	(1,082.3)
DPS (€) - <i>old</i>	0.0	0.0	0.0	0.0
DPS (€) - <i>new</i>	0.0	0.0	0.0	0.0
% Change	-	-	-	-

All figures are in AUD unless otherwise specified.

Share price performance

Elmo Software Ltd vs. AS51 (rebased index)



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EVENT

FY19 Preliminary Results & Business Update.

IMPACT

Strong growth in revenue driven by new customers, acquisitions and cross-selling. FY19 statutory revenue \$40.1m (+51% YoY), in line with Moelis estimates of \$40.6m. Proforma revenue (i.e. including the full year contribution from acquisitions) of \$42.6m was slightly above guidance of \$42.4m. The company enters FY20 with ARR of \$46m (+48% YoY) to support growth.

FCF positive in Q4 underpinned by record cash receipts of \$15.5m. ELMO required a strong Q4 to meet guidance and delivered accordingly. Q4 is traditionally ELMO's strongest quarter as it aligns with its corporate customers' decision making. ELMO added 310 net new customers (+30%) during FY19, including 131 through the acquisition of HRonboard and 179 organically.

Ongoing robust investment into growth. ELMO continues to invest heavily into ramping up sales & marketing and product development to drive long term growth. As a result, we expect FY20 to become another growth year for ELMO with the inherent operating leverage within the business likely to be realised over the medium term.

INVESTMENT VIEW

Our target price increases to **\$7.54** (prev: \$6.37) which primarily reflects an expansion in peer multiples. However, we reduce our rating to **HOLD** following the recent share price appreciation.

We like the ELMO story and believe there is a strong opportunity for the company to capitalise on its positioning as a comprehensive, cloud-based HR & Payroll software platform in the mid-market to win new customers and upsell its expanded modular suite into its customer base.

However, we believe the current valuation is challenging at 8.4x EV/FY20 Sales and move to a neutral rating accordingly.

Y/E Jun 30	2018a	2019e	2020e	2021e
EBITDA	1.3	(2.7)	(0.1)	4.6
EV/EBITDA	344.9x	nm	nm	99.0x
Core NPAT	(2.9)	(9.6)	(7.4)	(5.1)
Core EPS (Diluted) (€)	(198.8)	(14.8)	(11.5)	(8.0)
P/E	nm	nm	nm	nm
EPS growth	-	(92.5%)	(22.5%)	(30.7%)
DPS (€)	0.0	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%	0.0%
DPS growth	-	-	-	-
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

All figures are in AUD.

RESULTS SUMMARY

ELMO's FY19 results reflected strong growth and good execution through new customer acquisition and cross-selling its expanded platform into its existing customer base.

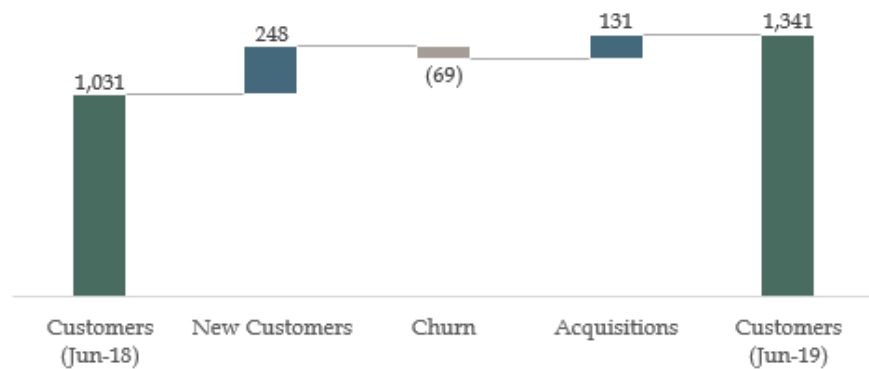
Figure 1: Key Growth Metrics

	30 June 2019	30 June 2018	Growth
<i>ARR (\$m)</i>	46.0	31.1	47.8%
<i>Statutory revenue (\$m)</i>	40.1	26.5	51.3%
<i>Cash receipts (\$m)</i>	45.1	28.2	59.8%
<i>Customers</i>	1,341	1,031	30.1%

Source: Company, Moelis Analysis

ELMO added 310 net new customers during the year. We estimate net organic customer growth was roughly ~17% during FY19.

Figure 2: FY19 Customer Growth

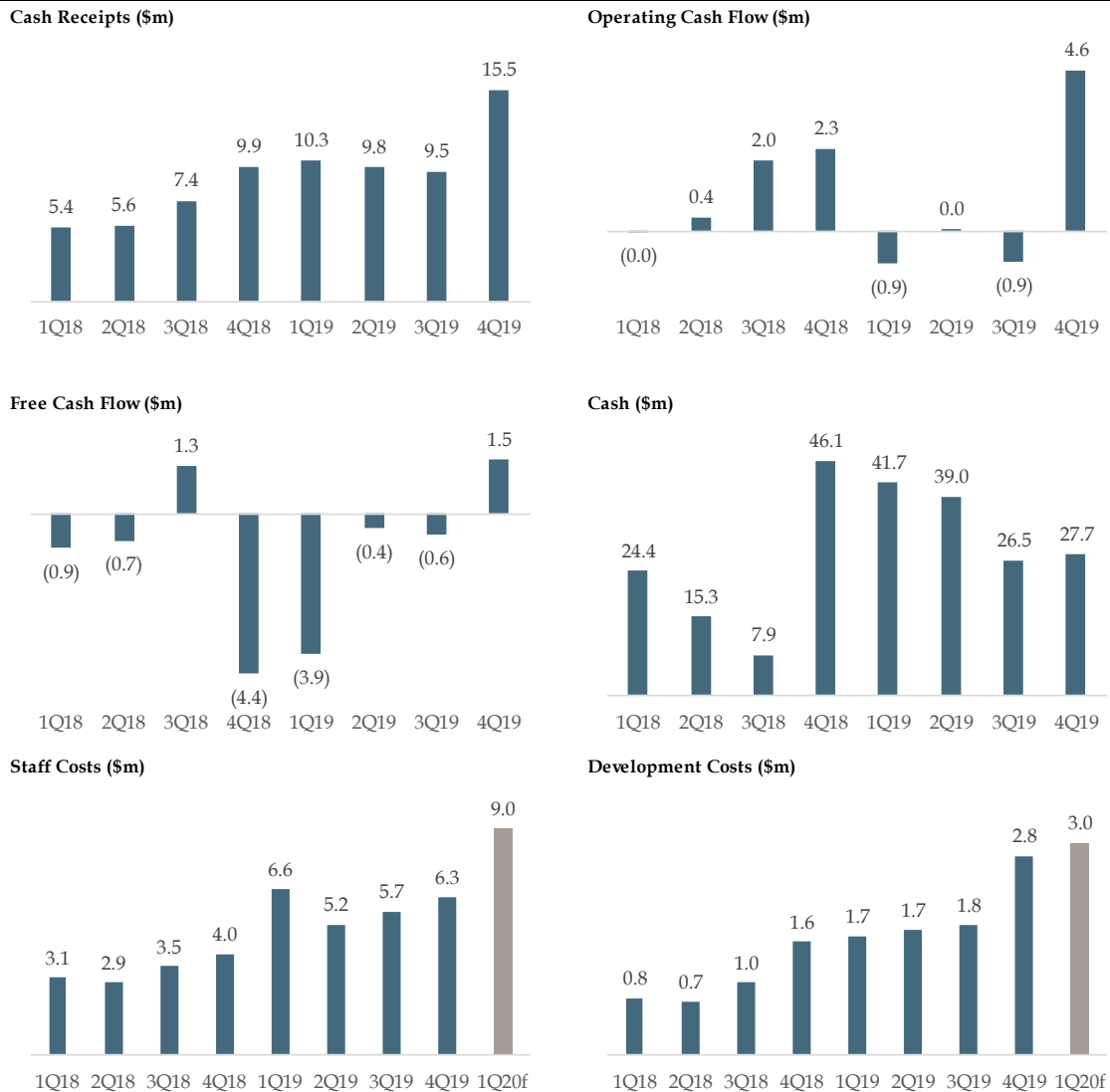


Source: Company, Moelis Analysis

APPENDIX 4 C METRICS

Cash receipts were \$15.5m in Q4, up 57% on pcp, demonstrating the strong execution across the business with ELMO FCF positive in Q4. The 4C demonstrated strong ongoing investment in staff for sales & marketing and product development, with the forecast outflows for Q1 FY20 showing an additional step up in costs.

Figure 3: Appendix 4C Metrics



Source: Company, Moelis Analysis

CHANGES TO ESTIMATES

As a result of the increased investment into staff, we are reducing our near term earnings estimates. However, our revenue estimates remain largely unchanged.

Figure 4: Changes to Estimates

Year End Jun	2019e	2020e	2021e
Revenue			
New	40.1	54.7	69.4
Previous	40.6	54.9	69.6
Change (%)	(1.2%)	(0.2%)	(0.2%)
EBITDA			
New	(2.6)	(0.1)	4.6
Previous	(1.7)	3.6	9.7
Change (%)	58.7%	(103.6%)	(52.2%)

Source: Company, Moelis Analysis

Elmo Software Ltd (ELO)

Market Cap: \$480m

Last Price: \$7.43

Target Price: \$7.54

Hold

Y/E Jun 30

Profit and Loss (\$m)	2017a	2018a	2019e	2020e	2021e
Revenue	16.6	26.5	40.1	54.7	69.4
<i>Growth</i>	22.8%	60.1%	51.2%	36.5%	26.8%
EBITDA	1.1	1.3	(2.7)	(0.1)	4.6
<i>Growth</i>	(31.9%)	24.3%	(304.5%)	(95.2%)	(3,670.7%)
Dep'n & Amort	(2.5)	(4.4)	(6.5)	(8.1)	(10.3)
EBIT	(1.4)	(3.1)	(9.2)	(8.3)	(5.7)
<i>Growth</i>	(188.3%)	124.9%	197.3%	(10.6%)	(30.9%)
Net Interest Expense	0.0	0.3	0.9	0.8	0.6
Profit Before Tax	(1.4)	(2.8)	(8.3)	(7.4)	(5.1)
Tax	0.0	0.0	(1.3)	0.0	0.0
<i>Tax Rate (%)</i>	0.0%	(0.5%)	(15.0%)	0.0%	0.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	(1.4)	(2.9)	(9.6)	(7.4)	(5.1)
<i>Growth</i>	(188.3%)	106.9%	234.7%	(22.5%)	(30.7%)
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	(1.4)	(2.9)	(9.6)	(7.4)	(5.1)
EPS (Underlying) (€)	0.0	(198.8)	(14.8)	(11.5)	(8.0)
<i>Growth</i>	-	-	(92.5%)	(22.5%)	(30.7%)

Balance Sheet (\$m)	2017a	2018a	2019e	2020e	2021e
Cash	26.6	46.0	27.8	13.0	4.3
Inventory	0.0	0.0	0.0	0.0	0.0
Current Receivables	3.6	6.5	10.7	14.0	17.6
PPE	0.5	5.8	5.2	6.3	7.1
Intangibles	6.0	35.8	51.5	62.0	69.1
Other	1.0	5.3	3.8	3.8	3.8
Total Assets	37.6	99.3	99.0	99.1	101.9
Current Payables	3.0	4.6	7.7	10.1	12.7
ST Debt	0.0	0.0	0.0	0.0	0.0
LT Debt	0.0	0.0	0.0	0.0	0.0
Provisions	10.1	20.5	24.3	29.5	34.8
Other	10.2	25.6	29.1	34.3	39.6
Total Liabilities	23.3	50.7	61.1	73.8	87.1
Net Assets	14.3	48.6	37.9	25.3	14.8
Equity & Reserves	25.1	72.5	76.0	76.0	76.0
Retained Profits	(1.3)	(4.3)	(14.5)	(21.9)	(27.1)
Shareholders' Equity	23.8	68.2	61.5	54.0	48.9
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	23.8	68.2	61.5	54.0	48.9

Cashflow (\$m)	2017a	2018a	2019e	2020e	2021e
EBITDA	1.1	1.3	(2.7)	(0.1)	4.6
Net Interest	0.0	0.0	0.9	0.8	0.6
Tax	0.0	0.0	(1.3)	0.0	0.0
Δ in Working Capital	0.0	0.0	4.2	4.2	4.4
Other	0.0	0.0	1.7	0.0	0.0
Operating Cash Flow	1.1	1.3	2.8	4.9	9.5
<i>Growth</i>	(31.9%)	24.3%	111.0%	75.7%	94.2%
Capex	(3.1)	(10.5)	(10.5)	(14.8)	(16.3)
Acquisitions	(1.0)	(17.6)	(14.6)	(5.0)	(2.0)
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.3	4.2	0.0	0.0
Investing Cash Flow	(4.1)	(27.8)	(20.9)	(19.7)	(18.3)
Equity Raised	0.0	43.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	(0.2)	0.0	0.0
Financing Cash Flow	0.0	43.0	(0.2)	0.0	0.0
FX / Non Cash Items	0.0	0.0	0.0	0.0	0.0
Change in Cash	(3.0)	16.6	(18.3)	(14.8)	(8.8)
Free Cash Flow	(2.0)	(9.1)	(7.7)	(9.9)	(6.8)

Valuation Summary	
Current Mkt Capitalisation	480.1
Shares on Issue	64.6
Last Price	7.43
12 Mth Target Price	7.54
Total Estimated 12 Mth Return	1.5%
12 Mth Fwd Capital Return	1.5%
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2017a	2018a	2019e	2020e	2021e
EPS (Underlying) (€)	0.0	(198.8)	(14.8)	(11.5)	(8.0)
<i>Growth</i>	-	-	(92.5%)	(22.5%)	(30.7%)
P/E (x)	-	nm	nm	nm	nm
Small Industrials (ex Fin's)	0.0x	0.0x	0.0x	0.0x	0.0x
Premium / (Discount)	nm	nm	nm	nm	nm
EV/EBITDA (x)	428.7x	344.9x	nm	nm	99.0x
Small Industrials (ex Fin's)	0.0x	0.0x	0.0x	0.0x	0.0x
Premium / (Discount)	nm	nm	nm	nm	nm
DPS (€)	0.0	0.0	0.0	0.0	0.0
<i>Growth</i>	-	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	100.0%	100.0%	100.0%	100.0%	100.0%
NTA	10.4	34.4	20.1	2.0	(13.7)
NTA/Share (\$)	0.00	23.92	0.31	0.03	(0.21)

Performance Ratios	2017a	2018a	2019e	2020e	2021e
ROA	(3.7%)	(3.0%)	(9.6%)	(7.5%)	(5.0%)
ROE	(5.8%)	(4.4%)	(15.4%)	(13.7%)	(10.5%)
ROIC	97.5%	(33.2%)	(27.8%)	(22.1%)	(13.3%)
Net Debt (Cash) (\$m)	(26.6)	(46.0)	(27.8)	(13.0)	(4.3)
Net Debt/EBITDA (x)	0.0x	0.0x	0.0x	0.0x	0.0x
ND/(ND + Equity) (%)	938.0%	(207.0%)	(82.7%)	26.6%	94.4%
Interest Cover (x)	0.0x	(12.2x)	(11.2x)	(9.8x)	(10.1x)
Working Capital	(9.3)	(14.4)	(18.2)	(22.4)	(26.8)
Working Capital/Sales (%)	(56.1%)	(54.1%)	(45.5%)	(41.0%)	(38.6%)

Cash Flow Metrics	2017a	2018a	2019e	2020e	2021e
FCF/Share (\$)	0.00	0.00	(0.12)	(0.16)	(0.11)
Price/FCPS (x)	-	-	nm	nm	nm
Free Cash Flow Yield (%)	0.0%	0.0%	(1.6%)	(2.1%)	(1.4%)
Gross Cash Conversion	333.2%	344.7%	(159.0%)	(3,798.6%)	206.6%
Capex/Sales (%)	(18.5%)	(39.5%)	(26.3%)	(27.0%)	(23.5%)
Capex/Depreciation (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Margins	2017a	2018a	2019e	2020e	2021e
EBITDA	6.4%	5.0%	(6.8%)	(0.2%)	6.7%
EBIT	(8.3%)	(11.7%)	(23.1%)	(15.1%)	(8.2%)
NPAT	(8.3%)	(10.8%)	(23.9%)	(13.6%)	(7.4%)

Valuation Methodology	
WACC (%)	10.5%
Discounted Cash Flow Valuation	6.11
Sum-of-the-Parts Valuation	7.55
Average Valuation	6.83
12 Mth Target Price	7.54

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Distribution of Ratings as at 26 July 2019

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10.9%	39.1%	50.0%

Rating and Price Target History: Elmo Software Ltd (ELO) as of 25/07/2019



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