

ELMO SOFTWARE LTD

HOLD
On Track To Meet Revenue Guidance With Strong Investment in Headcount

Software & Services / Application Software

30 January 2020

COMPANY UPDATE

Ticker	ELO
Stock Price	\$6.90
Target Price	\$7.42
Forecast Capital Return	7.5%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	7.5%

Company market data

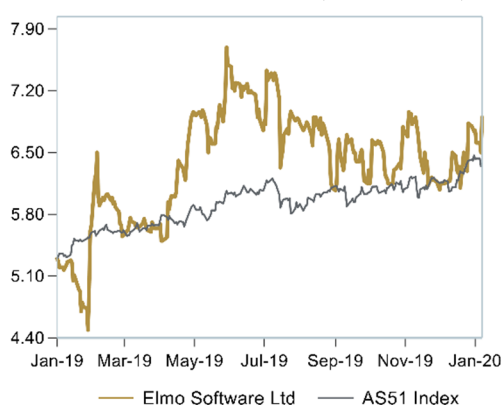
Market Cap.	\$526.6m
Free Float (%)	70.0
Enterprise Value	\$452.1m
52 Week Range	\$4.49 - \$7.69
Shares Out.	76.3m
Avg. Daily Value	\$0.6m

Estimates changes	2019a	2020e	2021e	2022e
Core NPAT - <i>old</i>	(13.3)	(12.9)	(12.3)	(10.4)
Core NPAT - <i>new</i>	(13.3)	(13.7)	(11.8)	(8.5)
% Change	0.0	6.5	(4.1)	(18.1)
Core EPS dil. (€) - <i>old</i>	(20.6)	(17.5)	(16.1)	(13.5)
Core EPS dil. (€) - <i>new</i>	(20.6)	(18.7)	(15.5)	(11.1)
% Change	0.0	6.5	(4.1)	(18.1)
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)



Analyst

Brendon Kelly, CFA

+61 2 8288 5413

brendon.kelly@moelisaustralia.com

EVENT

2Q19 Quarterly Business Update and Appendix 4C.

- 1H20 statutory revenue: \$23.6m (+33.5% yoy)
- ARR: \$52.0m (+42.8% yoy)
- Customers: 1,478 (+30.9%), 137 net new customers added in 1H20.
- ARPU: \$35.2k (+9.1% yoy).
- FTEs: 368 (+66.5% yoy)

IMPACT

Our FY20 revenue estimates of \$53.8m remains unchanged and our EBITDA estimate decreases marginally to -\$3.5m from -\$3.1m.

INVESTMENT VIEW

We think ELMO remains on track to meet its FY20 revenue guidance of \$53m-\$55m with growth typically weighted to the second half. We think the increasing ARPU reflects that ELMO is realizing the cross-selling opportunity of the wider platform given that an increasing portion of new customers will be from the lower mid-market (50-200 FTE organisations).

The strong investment into sales & marketing and development remains ongoing with an additional 91 staff added in 1H20, with the flexibility to invest supported by the \$78m cash balance following the recent equity raise. With the high level of investment, our FY20 EBITDA of -\$3.5m remains slightly below guidance of -\$1m to -\$3m.

We believe ELO is trading close to fair value at 6.5x EV/FY21 Sales.

Our target price increases marginally to **\$7.42** (prev: \$7.14) as we roll our DCF forward and update for a re-rating in comparable peer multiples and we maintain our **Hold** rating.

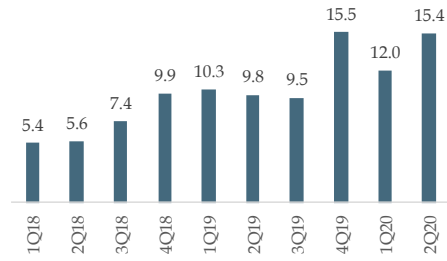
Y/E Jun 30	2019a	2020e	2021e	2022e
EBITDA	(2.6)	(3.5)	1.2	7.3
EV/EBITDA	nm	nm	378.0x	62.0x
Core NPAT	(13.3)	(13.7)	(11.8)	(8.5)
Core EPS (Diluted) (€)	(20.6)	(18.7)	(15.5)	(11.1)
P/E	nm	nm	nm	nm
EPS growth	(89.6%)	(9.4%)	(17.0%)	(28.4%)
DPS (€)	0.0	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%	0.0%
DPS growth	-	-	-	-
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

All figures are in AUD.

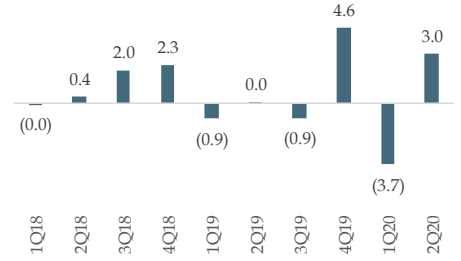
KEY QUARTERLY FINANCIAL METRICS

Figure 1: Key Quarterly Financial Metrics

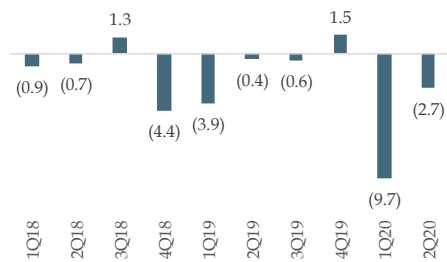
Cash Receipts (\$m)



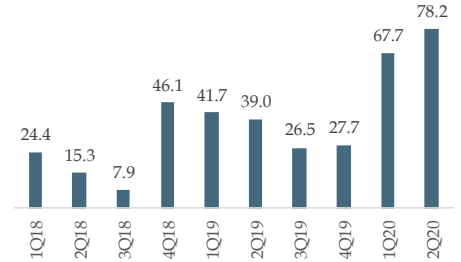
Operating Cash Flow (\$m)



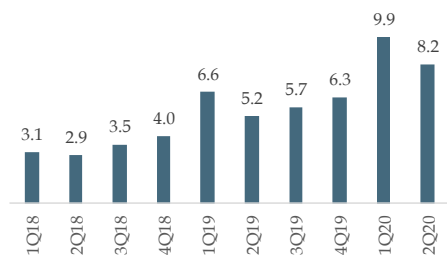
Free Cash Flow (\$m)



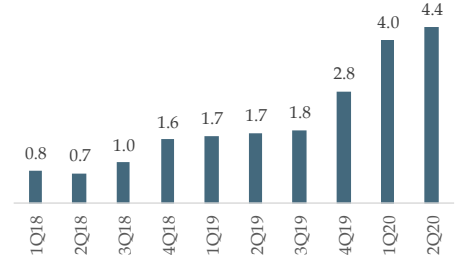
Cash (\$m)



Staff Costs (\$m)



Development Costs (\$m)



Source: Company, Moelis Analysis

Elmo Software Ltd (ELO)

Market Cap: \$527m

Last Price: \$6.90

Target Price: \$7.42

Hold

Y/E Jun 30

Profit and Loss (\$m)	2018a	2019a	2020e	2021e	2022e
Revenue	26.5	40.1	53.8	69.5	87.8
<i>Growth</i>	60.1%	51.2%	34.0%	29.3%	26.3%
EBITDA	1.3	(2.6)	(3.5)	1.2	7.3
<i>Growth</i>	24.3%	(295.6%)	36.4%	(133.8%)	509.2%
Dep'n & Amort	(4.4)	(9.4)	(10.8)	(13.9)	(16.4)
EBIT	(3.1)	(12.0)	(14.4)	(12.7)	(9.1)
<i>Growth</i>	124.9%	286.7%	19.5%	(11.6%)	(28.6%)
Net Interest Expense	0.3	0.1	0.7	0.9	0.6
Profit Before Tax	(2.8)	(11.9)	(13.7)	(11.8)	(8.5)
Tax	0.0	(1.4)	0.0	0.0	0.0
<i>Tax Rate (%)</i>	(0.5%)	(11.5%)	0.0%	0.0%	0.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	(2.9)	(13.3)	(13.7)	(11.8)	(8.5)
<i>Growth</i>	106.9%	365.3%	2.9%	(13.6%)	(28.3%)
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	(2.9)	(13.3)	(13.7)	(11.8)	(8.5)
EPS (Underlying) (€)	(198.8)	(20.6)	(18.7)	(15.5)	(11.1)
<i>Growth</i>	-	(89.6%)	(9.4%)	(17.0%)	(28.4%)

Balance Sheet (\$m)	2018a	2019a	2020e	2021e	2022e
Cash	46.0	27.7	71.1	52.8	44.3
Inventory	0.0	0.0	0.0	0.0	0.0
Current Receivables	6.5	9.5	11.8	14.8	18.6
PPE	5.8	4.2	5.8	6.7	7.5
Intangibles	35.8	58.9	77.9	77.0	84.6
Other	5.3	0.7	0.7	0.7	0.7
Total Assets	99.3	101.1	167.5	152.1	155.7
Current Payables	4.6	7.3	10.7	13.3	16.7
ST Debt	0.0	0.0	0.0	0.0	0.0
LT Debt	0.8	0.0	0.0	0.0	0.0
Provisions	13.9	20.1	25.2	31.8	39.1
Other	11.8	26.8	21.5	16.0	16.0
Total Liabilities	31.1	54.1	57.3	61.0	71.8
Net Assets	68.2	46.9	110.1	91.0	83.9
Equity & Reserves	72.5	73.6	142.1	143.2	144.6
Retained Profits	(4.3)	(18.2)	(31.9)	(43.7)	(52.2)
Shareholders' Equity	68.2	55.4	110.2	99.5	92.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	68.2	55.4	110.2	99.5	92.4

Cashflow (\$m)	2018a	2019a	2020e	2021e	2022e
EBITDA	1.3	(2.6)	(3.5)	1.2	7.3
Net Interest	0.0	0.9	0.7	0.9	0.6
Tax	0.0	(1.4)	0.0	0.0	0.0
Δ in Working Capital	0.0	5.7	6.2	6.3	6.9
Other	0.0	2.1	0.0	0.0	0.0
Operating Cash Flow	1.3	4.8	3.3	8.4	14.8
<i>Growth</i>	24.3%	258.6%	(30.3%)	152.6%	77.0%
Capex	(10.5)	(10.4)	(20.2)	(20.1)	(22.4)
Acquisitions	(17.6)	(13.7)	(5.8)	(5.5)	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.3	2.9	0.0	0.0	0.0
Investing Cash Flow	(27.8)	(21.3)	(26.0)	(25.6)	(22.4)
Equity Raised	43.0	(0.1)	67.5	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	0.0	0.0	0.0
Financing Cash Flow	43.0	(0.1)	67.5	0.0	0.0
FX / Non Cash Items	0.0	0.0	0.0	0.0	0.0
Change in Cash	16.6	(16.6)	44.8	(17.2)	(7.6)
Free Cash Flow	(9.1)	(5.7)	(16.9)	(11.7)	(7.6)

Valuation Summary	
Current Mkt Capitalisation	526.6
Shares on Issue	76.3
Last Price	6.90
12 Mth Target Price	7.42
Total Estimated 12 Mth Return	7.5%
12 Mth Fwd Capital Return	7.5%
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2018a	2019a	2020e	2021e	2022e
EPS (Underlying) (€)	(198.8)	(20.6)	(18.7)	(15.5)	(11.1)
<i>Growth</i>	-	(89.6%)	(9.4%)	(17.0%)	(28.4%)
P/E (x)	nm	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)	340.9x	nm	nm	378.0x	62.0x
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	54.0	24.1	68.7	50.5	35.8
NTA/Share (\$)	37.54	0.37	0.94	0.66	0.47

Performance Ratios	2018a	2019a	2020e	2021e	2022e
ROA	(3.0%)	(12.0%)	(8.2%)	(7.4%)	(5.2%)
ROE	(4.4%)	(23.8%)	(12.4%)	(11.9%)	(9.2%)
ROIC	(31.9%)	(41.5%)	(43.1%)	(29.7%)	(19.1%)
Net Debt (Cash) (\$m)	(45.2)	(27.7)	(71.1)	(52.8)	(44.3)
Net Debt/EBITDA (x)	0.0x	0.0x	0.0x	0.0x	0.0x
ND/(ND + Equity) (%)	(196.3%)	(100.0%)	(182.2%)	(113.1%)	(92.0%)
Interest Cover (x)	(12.2x)	(127.9x)	(21.3x)	(14.4x)	(15.4x)
Working Capital	(14.8)	(28.4)	(29.3)	(30.1)	(37.0)
Working Capital/Sales (%)	(55.6%)	(70.8%)	(54.5%)	(43.3%)	(42.2%)

Cash Flow Metrics	2018a	2019a	2020e	2021e	2022e
FCF/Share (\$)	0.00	(0.09)	(0.23)	(0.16)	(0.10)
Price/FCPS (x)	-	nm	nm	nm	nm
Free Cash Flow Yield (%)	0.0%	(1.3%)	(3.4%)	(2.3%)	(1.5%)
Gross Cash Conversion	344.7%	(276.0%)	(143.3%)	861.1%	232.4%
Capex/Sales (%)	(39.5%)	(26.0%)	(37.6%)	(28.9%)	(25.6%)
Capex/Depreciation (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Margins	2018a	2019a	2020e	2021e	2022e
EBITDA	5.0%	(6.5%)	(6.6%)	1.7%	8.3%
EBIT	(11.7%)	(30.0%)	(26.7%)	(18.3%)	(10.3%)
NPAT	(10.8%)	(33.2%)	(25.5%)	(17.0%)	(9.7%)

Valuation Methodology	
WACC (%)	10.9%
Discounted Cash Flow Valuation	6.95
Sum-of-the-Parts Valuation	6.44
Average Valuation	6.69
12 Mth Target Price	7.42

RESEARCH & SALES RESPONSIBILITIES

Equities

Simon Scott	Head of Equities	+612 8288 5418
Elliot Leahey	Operations Manager	+612 8288 5402
Jack Dyson	Desk Assistant	+612 8288 5401
Jacqui Irons	Corporate Broking	+612 8288 5427

Equities Sales & Trading

Ian McKenzie	+612 8288 5404
Bryan Johnson	+612 8288 5412
Jason Bailey	+612 8288 5403
Andrew Harvey	+612 8288 5428
Sam Clark	+612 8288 5410
Mitchell Hewson - <i>Head of Execution</i>	+612 8288 5417
Aaron Payne - <i>Real Estate</i>	+612 8288 5405

Equities Research

Real Estate	
Hamish Perks	+612 8288 5419
Edward Day	+612 8288 5424
Ronan Barratt	+612 8288 5426
Industrials	
Sean Kiriwan	+618 6555 8602
Sarah Mann	+612 8288 5407
Brendon Kelly	+612 8288 5413
Tom Tweedie	+612 8288 5423

email: firstname.lastname@moelisaustralia.com

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Distribution of Ratings as at 30 January 2020

SELL	HOLD	BUY
7.1%	42.9%	50.0%

Rating and Price Target History: Elmo Software Ltd (ELO) as of 29/01/2020



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