

Reaffirming its guidance for positive CY22 cashflow

Dropsuite Limited (ASX:DSE) delivers a secure, cloud software platform to enable businesses to easily backup, recover and protect themselves from all forms of data loss and help them comply with privacy regulations. The company was founded in 2012 and listed on the ASX through a reverse takeover of Excalibur Mining after raising \$5.3m at \$0.10/share. The company's most recent raise was in August 2021, when it secured \$20m from institutional and professional investors at \$0.21/share, to accelerate its organic growth and bolster the balance sheet ahead of potential acquisition opportunities. The company has expanded to more than 886,000 users across 100 countries serviced via more than 470 reseller partners globally and thousands of Managed Service Providers (MSPs) operating on behalf of IT distributors. Dropsuite's software suite integrates across any partner infrastructure including Microsoft 365 and Google Workspace, both on-premise and in the cloud, and can service clients across any vertical and of any size. The company delivered its maiden positive underlying EBITDA in CY2021 and expects to maintain underlying EBITDA profitability and positive operating cashflow while investing for future growth. The company surpassed \$20m annual recurring revenue (ARR) in June 2022 and grew that by another 16% in the September 2022 quarter. Dropsuite ended September 2022 with \$22.25m cash in hand, having generated positive quarterly cashflow of \$0.59m.

Business model

Dropsuite provides a cloud-based email backup and archiving solution that helps businesses securely backup, manage, recover, comply and protect email data. The company's core email backup products target Microsoft Office 365 and Google Workplace users which are the two fastest-growing cloud-based platforms used by small-to-medium enterprises globally. The company operates a partner-led business model where revenue is generated via a Software-as-a-Subscription (SaaS) model. Customers pay a subscription per user, which in CY2021 averaged \$1.95/month per user, an increase of 19% on pcp, and was up 13% in constant currency terms. Annual Recurring Revenue in September 2022 was \$23.3m, up 78% on the previous corresponding quarter and 16% on the June 2022 quarter.

Annual Recurring Revenue up 16% on the previous quarter

The company reported monthly ARPU of \$2.20 per user, up 6% on the June quarter. In constant currency terms, ARPU was up 1%. ARR is now tracking above \$23m, up 16% on the June quarter and 78% on the pcp. In constant currency terms ARR is up 11% on the previous quarter and 68% on the pcp. During the quarter the company added 78,000 paid users to take total users to 886,000, up 10% on the prior quarter and 54% on the pcp. Dropsuite reported cash receipts for the September quarter of \$5.15m and operating cashflow of \$0.59m, its best ever quarterly result. The company affirmed its guidance for positive operating cashflow for CY22.

Look to listed SaaS-based workplace solutions peers

Dropsuite is a SaaS operator and we look to other ASX-listed SaaS peers that deliver workplace solutions to enterprises and corporates. We identify the following companies as SaaS peers of similar market size or lifecycle positioning: accounting solutions group 8Common (ASX:8CO), workforce management solutions group Damstra (ASX:DTC), workforce compliance monitoring and RegTech group Kinatico [formerly CV Check] (ASX:KYP) and identity verification platform Xref (ASX:XF1). This group is trading on a median EV/Revenue (12-months-trailing) multiple of 2.1x versus Dropsuite currently on 10.0x.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.* (c)	EPS rep. (c)	EV/Revenue (x)
12/18a	5.22	(0.91)	(1.46)	(1.46)	(0.27)	(0.27)	1.7
12/19a	4.68	(2.35)	(3.15)	(3.15)	(0.64)	(0.64)	4.7
12/20a	7.03	(1.41)	(1.79)	(2.15)	(0.32)	(0.39)	11.3
12/21a	11.69	0.39	0.36	(0.03)	0.04	(0.01)	11.6

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items

Software & Services

7 November 2022

Share Details

ASX code	DSE
Share price (4-Nov)	\$0.205
Market capitalisation	\$138.3M
Shares on issue	689.9M
Net cash at 30-Sept-2022	\$22.3M
Free float	~86.1%

Share Performance (12 months)



Upside Case

- Highly scalable platform
- Ability to cross-sell, upsell to client base
- Strong market tailwinds around data protection

Downside Case

- Cyberattack could undermine integrity
- Partners could develop and offer their own email backup solutions
- Regulatory risk in operating in many countries

Catalysts

- Continued operational positive cashflow
- Continued growth in ARR
- Accretive Acquisitions

Comparable Companies (Aust/NZ)

8Common (ASX:8CO), Damstra Holdings (ASX:DTC), Kinatico (ASX:KYP), Xref (ASX:XF1)

Board and Management

Theo Hnarakis	Non-Executive Chair
Charif El Ansari	Managing Director/CEO
Bruce Tonkin	Non-Executive Director
Ridley Ruth	Chief Operating Officer
Manoj Kalyanaraman	Chief Technology Officer
Bill Kyriacou	Chief Financial Officer

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FINANCIAL SERVICES GUIDE

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Effective Date: 6th May 2021



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