

## Interim result reflects tech investment

Vault Intelligence Limited (ASX:VLT) is a safety technology company that drives the management of safety, risk and related compliance requirements for business. The products are sold by way of subscription (SaaS) resulting in recurring revenue. The company has announced it has signed a memorandum of understanding with Singapore's Jurong Port to implement Solo, its environmental health and safety solution it has developed for mobiles and the Samsung Galaxy watch. The MOU is the first formal deployment of Solo. Vault has also reported 1H19 revenue of \$1.68m, up 19% year-on-year. A net loss of \$2.31m was 23% higher than the prior period due to pre-payment of annual software licences, accelerated technical development and go-to-market plans for Vault Solo for mobile phones and on the Samsung Galaxy watch. Vault reiterated that subject to winning 2-3 enterprise contracts, it is on track to meet its Contracted Annualised Recurring Revenue projection of \$6m for FY19. We have made small adjustments to our forecasts for FY19 and FY20 with the key changes reflected in lower interest revenue than previously factored in. Our base case DCF valuation is \$0.45/share and if we include the Solo product, the base case valuation is \$3.91/share.

### Business model

Vault operates a subscription as a service (SaaS) model for its Environmental Health and Safety enterprise platform. Customers typically enter into a three-year contract which includes implementation and training and pay on a subscription basis with payments made monthly quarterly or annually. VLT has moved its products from desktop to mobile to an integrated version and, now, a wearables version.

### 1H19 result and MOU with Jurong Port

The company announced 1HFY19 revenues of \$1.6m and a net loss of \$2.31m. Cash receipts for the half were \$2.0m. Vault reiterated its target for \$6m CARR for FY19. The company noted that the first half was one of investment in technology with pre-payment for annual software licences and investment in the technical development and go to market plans for Vault Solo. The Solo APP has been launched on the Samsung Galaxy watch and is being trialled by several potential customers throughout Australasia. The Jurong Port MOU is the first formal deployment of Solo and in our view, positive recognition of the product. We have made small adjustments to our FY19 and FY20 forecasts, largely lower interest revenues than previously forecast. We have also rolled our financial model out to FY28 resulting in a small uplift in our DCF valuation (\$0.04/share on the base case excluding Solo).

### Valuation

Our base case valuation is \$0.45/share (previously \$0.41/share) and excludes the forecasted cashflows from the Vault Solo product. Including Vault Solo, our base case DCF rises to \$3.91/share. Our valuation is generated from a WACC of 12.0%, terminal value 2.0% and a CAGR of free positive cashflows from 2020 to 2028 of 36%. The terminal value makes up 61.5% of the valuation. In our view, demonstrated success with Vault Solo and demonstrated growth in CARR should underpin VLT's share price performance.

### Historical earnings and RaaS Advisory estimates

Year end	Revenue (A\$m)	EBITDA reported (A\$m)	NPAT reported (A\$m)	EPS* (c)	P/E (x)	EV/Sales (x)
06/18a	3.0	(2.6)	(2.7)	(3.40)	n.a.	n.a.
06/19e	5.8	(1.8)	(2.4)	(2.42)	n.a.	n.a.
06/20e	9.2	0.4	(0.0)	(0.02)	n.a.	1.4
06/21e	11.6	1.6	0.9	0.88	18.3	1.0

Source: Company data, RaaS Advisory Estimates for FY19e, FY20e and FY21e

## Software services

20th March 2019

### Share details

ASX Code	VLT
Share price intraday 4 Mar	\$0.16
Market Capitalisation	\$16.5M
Shares on issue	103M
Net cash at 31 December 2018	\$4.2M
Free float	~60%

### Share performance (12 months)



### Upside Case

- High profile customers and high customer retention levels (~96% overall and 99.5% on Vault 3)
- Innovative Internet of Things (IoT) software
- Applicable to markets globally

### Downside Case

- Enterprise range has a 3-12 month sales cycle, Solo range is one month
- New products, yet to be fully trialled in market
- Small, early stage company

### Board of Directors

Evonne Collier	Independent Non Executive Chair
David Moylan	Managing Director/ CEO
Robert Kirtlan	Non-Executive Director
Ross Jenkins	Non-Executive Director
David Rose	Executive Director

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## Earnings Adjustments

We have adjusted our forecasts for FY19 and FY20 to reflect IHFY19 interim report, taking into account lower interest revenue than we had forecast previously and slightly higher amortisation charges. Our changes to our costs forecasts are largely cosmetic, having made adjustments a month ago following the 4C quarterly announcement for Q2. Our forecast changes are set out in the following exhibit.

<b>Exhibit 1: Earnings adjustments (base case excluding Solo)</b>						
In A\$m unless otherwise stated	FY19 old	FY19 new	% chg	FY20 old	FY20 new	% chg
Revenue	5.8	5.8	0.0%	9.2	9.2	0.0%
EBITDA	(1.9)	(1.8)	(7.1%)	0.3	0.4	12.1%
EBIT	(2.4)	(2.4)	1.4%	(0.1)	(0.0)	(18.0%)
NPAT	(2.1)	(2.4)	15.3%	0.0	(0.0)	n.m.
EPS (A\$)	(2.01)	(2.42)	20.3%	0.02	(0.02)	n.m.
Source: RaaS estimates						

## DCF valuation


We are of the view that the discounted cashflow methodology is the most appropriate methodology for valuing early stage companies. Our base case DCF valuation of Vault, excluding Vault Solo, is \$0.45/share and uses a WACC of 12% (terminal value of 2%) to reflect the early stage nature of the business and the competitive landscape. Our base case valuation anticipates an IRR of 81% from FY19-FY28.

Including Vault Solo, our base case valuation is \$3.91/share, based on the same valuation parameters.

<b>Exhibit 3: Base Case DCF valuation (excluding Vault Solo)</b>	
Parameters	Outcome
Discount Rate / WACC	12.00%
Beta	1.4
Terminal growth rate assumption	2.00%
Sum of PV	16.4
PV of terminal Value	26.2
PV of Enterprise	42.6
Debt (Cash)	(4.2)
Net Value - Shareholder	46.8
No of shares on issue	102.9
NPV	\$0.45
Source: RaaS estimates	

<b>Exhibit 4: Base Case DCF valuation (including Vault Solo)</b>	
Parameters	Outcomes
Discount Rate / WACC	12.00%
Beta	1.4
Terminal growth rate assumption	2.00%
Sum of PV	159.6
PV of terminal Value	238.2
PV of Enterprise	397.7
Debt (Cash)	(4.2)
Net Value - Shareholder	401.9
No of shares on issue	102.9
NPV	\$3.91
Source: RaaS estimates	

### Exhibit 5: Financial Summary (Base Case excluding Vault Solo)

Vault Intelligence Limited						Share price (19 March 2019)						A\$		0.16
Profit and Loss (A\$m)						Interim (A\$m)								
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F	Revenue	H118A	H218A	H119F	H219F	H120F	H220F		
						EBITDA	- 1.6	- 1.0	- 2.0	- 0.2	- 0.5	- 0.1		
						EBIT	- 1.8	- 1.2	- 2.4	- 0.0	- 0.3	- 0.3		
						NPAT (normalised)	- 1.9	- 1.0	- 2.3	- 0.0	- 0.2	- 0.2		
						Minorities	-	-	-	-	-	-		
						NPAT (reported)	- 1.9	- 1.0	- 2.3	- 0.0	- 0.2	- 0.2		
Revenue	2.8	3.0	5.8	9.2	11.6	EPS (normalised)	- 2.53	- 0.87	- 2.40	- 0.02	- 0.19	- 0.21		
EBITDA	(3.1)	(2.6)	(1.8)	0.4	1.6	EPS (reported)	- 2.53	- 0.87	- 2.40	- 0.02	- 0.19	- 0.21		
Depn	(0.3)	(0.0)	(0.0)	(0.0)	(0.0)	Dividend (cps)	-	-	-	-	-	-		
Amort	0.0	(0.4)	(0.5)	(0.4)	(0.3)	Imputation	30.0	30.0	30.0	30.0	30.0	30.0		
EBIT	(3.4)	(3.0)	(2.4)	(0.0)	1.3	Operating cash flow	- 1.6	- 1.1	- 2.4	- 0.1	- 0.0	- 0.3		
Interest	(0.0)	(0.0)	0.0	0.0	0.0	Free Cash flow	- 1.6	- 1.1	- 2.4	- 0.1	- 0.0	- 0.3		
Tax	(0.0)	0.0	0.0	0.0	(0.4)	Share price chart (adjusted for share consolidation)								
Minorities	0.0	0.0	0.0	0.0	0.0									
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0									
NPAT pre significant items	(3.5)	(2.7)	(2.4)	(0.0)	0.9									
Significant items	0.0	0.0	0.0	0.0	0.0									
NPAT (reported)	(3.5)	(2.7)	(2.4)	(0.0)	0.9									
Cash flow (A\$m)														
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F									
Receipts less exp	(3.1)	(3.0)	(2.5)	0.2	1.3									
Interest	(0.0)	0.0	0.0	0.0	0.0									
Tax	0.0	0.0	0.0	(0.1)	(0.4)									
Working capital changes	0.3	0.3	(0.1)	0.2	0.0									
Operating cash flow	(2.8)	(2.7)	(2.5)	0.3	1.0									
Mtce capex	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)									
Free cash flow	(2.9)	(2.8)	(2.7)	0.2	0.9									
Growth capex	0.0	(0.0)	0.0	0.0	(0.0)									
Acquisitions/Disposals	(0.5)	(0.5)	(0.1)	0.0	0.0									
Other	0.0	0.0	0.0	0.0	0.0									
Cash flow pre financing	(3.4)	(3.3)	(2.8)	0.2	0.9									
Equity	1.5	4.2	4.8	0.0	0.0									
Debt	(0.6)	0.0	0.0	0.0	0.0									
Dividends paid	0.0	0.0	0.0	0.0	0.0									
Net cash flow for year	(2.5)	0.9	2.0	0.2	0.9									
Balance sheet (A\$m)														
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F									
Cash	1.4	2.2	4.1	4.3	5.1									
Accounts receivable	0.3	0.6	0.5	0.8	1.2									
Inventory	0.0	0.0	0.0	0.0	0.0									
Other current assets	0.0	0.0	0.0	0.0	0.0									
Total current assets	1.7	2.8	4.6	5.1	6.4									
PPE	0.2	0.2	0.2	0.3	0.4									
Intangibles	1.2	1.9	2.1	1.7	1.4									
Investments	0.0	0.4	0.5	0.5	0.5									
Deferred tax asset	0.0	0.0	0.0	0.0	0.0									
Loan receivables	0.5	0.0	0.0	0.0	0.0									
Total non current assets	1.8	2.6	2.8	2.5	2.2									
Total Assets	3.5	5.4	7.4	7.6	8.6									
Accounts payable	0.4	0.4	0.2	0.3	0.3									
Short term debt	0.2	0.1	0.2	0.2	0.2									
Tax payable	0.0	0.0	0.0	0.0	0.0									
Other current liabilities	1.0	1.4	1.1	1.2	1.3									
Total current liabilities	1.6	1.9	1.5	1.7	1.8									
Long term debt	0.0	0.1	0.1	0.1	0.1									
Other non current liab	0.0	0.0	0.0	0.0	0.0									
Total long term liabilities	0.0	0.1	0.1	0.1	0.1									
Total Liabilities	1.6	2.0	1.6	1.8	1.9									
Net Assets	1.9	3.4	5.8	5.8	6.7									
Share capital	13.7	17.9	22.7	22.7	22.7									
Accumulated profits/losses	(12.5)	(15.2)	(17.5)	(17.5)	(16.6)									
Reserves	0.7	0.7	0.6	0.6	0.6									
Minorities	0.0	0.0	0.0	0.0	0.0									
Total Shareholder funds	1.9	3.4	5.8	5.8	6.7									



# FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26<sup>th</sup> November 2018

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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