

On track to deliver \$6m CARR for FY19

Vault Intelligence Limited (VLT.ASX) 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 and VLT is in the process of trialling its new Vault Solo product with 30 companies. In its quarterly statement of cashflows for the three months to December 31, the company announced its Contracted Annualised Recurring Revenue had increased by a net \$511k to \$4.223m and that it was on track to deliver \$6m CARR for the full year. Vault had \$4.62m in cash at the end of the quarter, having utilised \$1.175m in the period. Cash costs were slightly ahead of our forecasts for the period, due to higher product manufacturing, advertising and marketing costs. We have incorporated the quarterly cashflows into our forecasts resulting in a lift in our costs estimates but we have also upgraded our CARR forecasts to \$6.0m from \$5.3m for FY19. This has resulted in an upgrade to our FY20 revenue and EBITDA forecasts. Our expectation is that VLT will break even in FY20, the first full year of revenue contribution from Vault Solo.

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.

Q2 cashflow statement and FY19 CARR target confirmed

Vault announced Q2 cash receipts of \$0.9m, bringing total receipts for the first half to \$2.0m. This was a little below our forecast for \$2.6m and suggests a conversion rate of ~75% versus our forecast for 85%. Employment costs for the period were in line with our forecasts as were fixed costs (predominantly administration costs), however advertising and marketing as well as product manufacturing costs were ahead of our forecasts, reflecting the investment the company is making in rolling out its Vault 3 system, its Solo wearables product and its push into China with its enterprise system. Vault confirmed its target for \$6m CARR for FY19 is on track and we have increased our FY19 CARR forecast to \$6.0m from \$5.3m previously. The company has also announced the appointment of Executive Director, David Rose, to the roles of Chief Operating Officer and Chief Information Officer, which in our view, will strengthen the management team at a crucial point in the company's life cycle.

Valuation

Our base case valuation is \$0.41/share and excludes the forecasted cashflows from the Vault Solo product. Including Vault Solo, our base case DCF rises to \$3.42/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 50%. Sixty percent of the valuation is in the terminal value. 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)
06/18	3.0	(2.6)	(2.7)	(3.40)	n.a.	n.a.
06/19e	5.8	(1.9)	(2.1)	(1.93)	n.a.	n.a.
06/20e	9.2	0.3	0.0	0.02	n.m.	1.5
06/21e	11.6	1.6	1.0	0.92	19.5	1.1

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

Software services

1 February 2019

Share details

ASX Code	VLT
Share price	\$0.18
Market Capitalisation	\$18M
Shares on issue	103M
Net cash at 31 December 2018	\$4.6M
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 the Q2 cashflow report, taking into account the higher variable costs of advertising and marketing and product manufacturing. We have also upgraded our forecast for Contracted Annualised Recurring Revenues to \$6.0m (previously \$5.3m) following confirmation from the company that it remains on track to deliver \$6m in CARR in FY19. We anticipate that this will be reflected in reported revenues and cashflows in FY20 and, as a result, have upgraded our FY20 revenue forecast by 4.3% and EBITDA forecast by 9%. Our forecast changes are set out in the following exhibit.

Exhibit 1: Earnings adjustments (base case excluding Solo)						
In A\$m unless otherwise stated	FY19 old	FY19 new	% chg	FY20 old	FY20 new	% chg
Revenue	5.9	5.8	(0.5%)	8.8	9.2	4.3%
EBITDA	(1.3)	(1.9)	50.7%	0.3	0.3	9.0%
EBIT	(1.7)	(2.4)	41.2%	(0.0)	(0.1)	194.0%
NPAT	(1.1)	(2.1)	85.2%	0.1	0.0	(65.1%)
EPS (A\$)	(1.14)	(1.93)	69.9%	0.06	0.02	(65.1%)
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 \$0.0413/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 64% from FY19-FY27.

Including Vault Solo, our base case valuation is \$3.42/share, based on the same valuation parameters.

Exhibit 3: Base Case DCF valuation (excluding Vault Solo)	
Parameters	Outcome
Discount Rate / WACC	12.0%
Beta	1.4
Terminal growth rate assumption	2.0%
Sum of PV	15.2
PV of terminal Value	22.8
PV of Enterprise	37.9
Debt (Cash)	(4.6)
Net Value - Shareholder	42.5
No of shares on issue	102.9
NPV	\$0.413
Source: RaaS estimates	

Exhibit 4: Base Case DCF valuation (including Vault Solo)	
Parameters	Outcomes
Discount Rate / WACC	12.0%
Beta	1.4
Terminal growth rate assumption	2.0%
Sum of PV	154.4
PV of terminal Value	193.0
PV of Enterprise	347.4
Debt (Cash)	(4.6)
Net Value - Shareholder	352.0
No of shares on issue	102.9
NPV	\$3.42
Source: RaaS estimates	

Our financial model also contemplates an upside case and a downside case for Vault both including and excluding Vault Solo.

We set out some of the parameters we have used to reach these valuations:

- Base case revenues ex Solo are forecast to grow at a CAGR of 28% from 2019-2025 with contracted revenue growing at a CAGR of 14% from FY19 to FY25, delayed contract revenue of 50%, variable


costs 20% of revenue and consulting revenue 25% of FY19's total revenue and growing at 2% thereafter;

- Base case revenues including Solo assume 25,000 users come onto the platform in H219, paying \$12 per month for the functionality on the Samsung Galaxy watch; this rises to 152,200 by 2025;
- An upside case assumes a CAGR of 18% in CARR from FY19 to FY25, delayed contract revenue of 25%, variable costs 17.5% and consulting revenue of 25% in FY18 and growing at 3% thereafter;
- Upside case revenues including Solo assume take up by 30,000 users in H219 rising to 187,500 by 2025;
- A downside case assumes a CAGR of 11% in CARR from FY19 to FY25, delayed contract revenue of 75%, variable costs 22.5% and consulting revenue of 25% in FY18 and growing at 1% thereafter;
- Downside case including Solo assume take up by 20,000 users in H119 rising to 112,500 by 2025.

The following exhibit highlights the DCF valuations generated by the different scenarios.

Exhibit 5: Impact on DCF valuation of different scenarios	
Scenario	Value per share
Base case DCF valuation (ex Vault Solo)	\$0.41
Base case DCF valuation (inc Vault Solo)	\$3.42
An upside case DCF ex Solo	\$0.78
An upside case DCF inc Solo	\$4.73
A downside case DCF ex Solo	\$0.06
A downside case DCF inc Solo	\$2.02
Source: RaaS estimates	

Exhibit 6: Financial Summary (Base Case excluding Vault Solo)

Vault Intelligence Limited						Share price (31 January 2018)						A\$	0.18
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F	Revenue	H118A	H218A	H119F	H219F	H120F	H220F	
Revenue	2.8	3.0	5.8	9.2	11.6	EBITDA	- 1.7	- 0.9	- 1.3	- 0.7	- 0.5	- 0.1	
EBITDA	(3.1)	(2.6)	(1.9)	0.3	1.6	EBIT	- 1.9	- 1.1	- 1.5	- 0.9	- 0.3	- 0.3	
Depn	(0.3)	(0.0)	(0.1)	(0.1)	(0.1)	NPAT (normalised)	- 1.9	- 0.9	- 1.5	- 0.6	- 0.2	- 0.2	
Amort	0.0	(0.4)	(0.4)	(0.3)	(0.2)	Minorities	-	-	-	-	-	-	
EBIT	(3.4)	(3.0)	(2.4)	(0.1)	1.3	NPAT (reported)	- 1.9	- 0.9	- 1.5	- 0.6	- 0.2	- 0.2	
Interest	(0.0)	(0.0)	0.0	0.1	0.1	EPS (normalised)	- 2.20	- 1.20	- 1.36	- 0.57	- 0.21	- 0.19	
Tax	(0.0)	0.0	0.3	(0.0)	(0.4)	EPS (reported)	- 2.20	- 1.20	- 1.36	- 0.57	- 0.21	- 0.19	
Minorities	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	-	-	-	-	-	-	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0	
NPAT pre significant items	(3.5)	(2.7)	(2.1)	0.0	1.0	Operating cash flow	- 1.6	- 1.1	- 1.9	- 0.8	- 0.2	- 0.3	
Significant items	0.0	0.0	0.0	0.0	0.0	Free Cash flow	- 1.6	- 1.1	- 1.1	- 0.8	- 0.1	- 0.4	
NPAT (reported)	(3.5)	(2.7)	(2.1)	0.0	1.0	Share price chart (adjusted for share consolidation)							
Cash flow (A\$m)													
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F								
Receipts less exp	(3.1)	(3.0)	(2.2)	0.0	1.3								
Interest	(0.0)	0.0	0.0	0.1	0.1								
Tax	0.0	0.0	(0.0)	(0.1)	(0.4)								
Working capital changes	0.3	0.3	1.0	0.1	0.1								
Operating cash flow	(2.8)	(2.7)	(1.1)	0.1	1.1								
Mtce capex	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)								
Free cash flow	(2.9)	(2.8)	(1.2)	0.0	1.0								
Growth capex	0.0	(0.0)	(0.8)	(0.0)	(0.0)								
Acquisitions/Disposals	(0.5)	(0.5)	0.0	0.0	0.0	Margins, Leverage, Returns	FY17A	FY18A	FY19F	FY20F	FY21F		
Other	0.0	0.0	0.0	0.0	0.0	EBITDA	-111.2%	-85.8%	-33.3%	3.6%	13.8%		
Cash flow pre financing	(3.4)	(3.3)	(2.0)	(0.0)	1.0	EBIT	-123.9%	-99.1%	-40.5%	-0.7%	10.8%		
Equity	1.5	4.2	4.8	0.0	0.0	NPAT pre significant items	-126.2%	-90.0%	-35.5%	0.2%	8.2%		
Debt	(0.6)	0.0	0.0	0.0	0.0	Net Debt (Cash)		1.2	2.0	5.1	5.1	6.1	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	15.360	3.793	
Net cash flow for year	(2.5)	0.9	2.8	(0.0)	1.0	ND/ND+Equity (%)	(%)	-164.9%	-145.1%	-265.4%	-258.0%	-313.0%	
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-	0.1
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F	ROA		-71.1%	-67.7%	-31.5%	-0.6%	12.1%	
Cash	1.4	2.2	5.3	5.2	6.2	ROE		-135%	-103%	-40%	0%	13%	
Accounts receivable	0.3	0.6	1.1	1.5	1.9	ROIC		119%	256%	-573%	32%	-79%	
Inventory	0.0	0.0	0.0	0.0	0.0	NTA (per share)		0.01	0.01	0.05	0.06	0.07	
Other current assets	0.0	0.0	0.0	0.0	0.0	Working capital	-	0.1	0.2	0.3	0.5	0.8	
Total current assets	1.7	2.8	6.4	6.7	8.1	WC/Sales (%)		-4%	6%	5%	6%	7%	
PPE	0.2	0.2	1.0	1.1	1.1	Revenue growth		9%	10%	93%	57%	27%	
Intangibles	1.2	1.9	1.5	1.2	1.0	EBIT growth pa	n/a	n/a	n/a	n/a	-2103%		
Investments	0.0	0.4	0.4	0.4	0.4	Pricing	FY17A	FY18A	FY19F	FY20F	FY21F		
Deferred tax asset	0.0	0.0	0.3	0.3	0.3	No of shares (y/e)	(m)	70	103	103	103	103	
Loan receivables	0.5	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	-	96	103	103	103	
Total non current assets	1.8	2.6	3.3	3.1	2.9	EPS Reported	cps	-	5.58	- 3.40	- 2.01	0.02	0.92
Total Assets	3.5	5.4	9.7	9.8	11.0	EPS Normalised/Diluted	cps	-	5.58	- 3.40	- 1.93	0.02	0.92
Accounts payable	0.4	0.4	0.8	0.9	1.1	EPS growth (norm/dil)		n/a	n/a	n/a	-101%	4069%	
Short term debt	0.2	0.1	0.1	0.1	0.1	DPS	cps	-	-	-	-	-	
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Other current liabilities	1.0	1.4	1.6	1.7	1.8	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total current liabilities	1.6	1.9	2.5	2.7	2.9	Dividend imputation		30	30	30	30	30	
Long term debt	0.0	0.1	0.1	0.1	0.1	PE (x)		-	-	-	811.5	19.5	
Other non current liab	0.0	0.0	0.0	0.0	0.0	PE market			15.2	15.2	15.2	15.2	
Total long term liabilities	0.0	0.1	0.1	0.1	0.1	Premium/(discount)				-100%	5239%	28%	
Total Liabilities	1.6	2.0	2.6	2.8	3.0	EV/EBITDA	-	3.7	- 5.5	- 6.1	609.4	-	
Net Assets	1.9	3.4	7.0	7.1	8.0	FCF/Share	cps	-	-3.9	-2.6	-1.0	0.2	1.2
Share capital	13.7	17.9	22.7	22.7	22.7	Price/FCF share	-	5	- 7	- 18	86.6	15.5	
Accumulated profits/losses	(12.5)	(15.2)	(16.3)	(16.3)	(15.3)	Free Cash flow Yield		-21.6%	-14.7%	-5.4%	1.2%	6.5%	
Reserves	0.7	0.7	0.7	0.7	0.7								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	1.9	3.4	7.0	7.1	8.0								

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

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of

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