

Strong first half growth with measured costs growth

Pointerra Ltd (ASX:3DP) provides an end to end, cloud-based data as a service solution for capturing, storing, manipulating and analysing massive 3D datasets in the geospatial sector. It has taken what has been a highly manual, slow and cost prohibitive process and turned it into a fast, efficient workflow solution for 3D data, enabling digital asset management from any device in any location. Its customer base spans pole and power companies, resources companies, construction companies, government agencies, data capture companies and surveyor and mapping companies. Pointerra has reported H1 FY21 revenue growth of 218% to \$1.56m and cash receipts growth of 132% to \$1.14m. The net loss for the half was \$0.94m, down 28% from the same period a year ago and better than our forecast loss of \$1.1m. We have made some minor adjustments to our forecasts to reflect timing differences for revenue recognition and the recent strength in the Australian dollar against the USD. Our base case DCF valuation using a WACC of 14% and which is predicated on Pointerra delivering ACV of US\$50m by FY25 is \$0.75/share.

Business model

Pointerra offers a suite of Software as a Service (SaaS) products to its clients: Data as a Service (DaaS), Analytics as a Service (AaaS), and Data Processing as a Service (DPaaS). Pointerra's DaaS offering manages 3D data using its digital management platform and is priced according to the amount of data (in terabytes) that Pointerra hosts on behalf of the client, and the number of users required. Additional revenue is generated from processing client data (DPaaS) and building and/or deploying analytics tools (AaaS) to interpret the client's 3D data. Pointerra has also recently soft-launched its 3D data marketplace which aims to sell insights into assets condition through subscription- and event-based models.

H1 FY21 result better than forecast

3DP has reported a better than forecast net loss of \$0.94m, compared with our forecast for a net loss of \$1.1m and the previous corresponding period's net loss of \$1.32m. Revenue for the period was \$1.56m, up 218% on the pcp although a little below our forecast for \$1.87m, chiefly due to timing differences on revenue recognition from contracts signed in the half. In the near term, the proportion of new contracts recognised in the revenue line will be difficult to predict accurately without having the full contract book available. Over time, as Pointerra's contract book matures, revenue recognition, cash receipts and Annual Contract Value will be aligned. Importantly, the tight cost control exhibited by management historically remained evident in this result with measured growth in core revenue drivers – head count and research and development. We have made minor adjustments to our forecasts, chiefly reflecting the lower than forecast revenue recognition in H1 and a higher AUD/USD exchange rate (\$0.78 vs \$0.72 at the beginning of the year).

Base case DCF valuation is \$0.75/share

We use the discounted cashflow methodology to value Pointerra using a WACC of 14.0% (beta 1.8, terminal growth rate of 2.2%) and this derives an equity value of \$0.75/share. Our base case is predicated on Pointerra delivering ACV of US\$50m by FY25. We have dimensioned an upside case whereby ACV hits US\$50m by FY24 and this delivers a valuation of \$1.47/share. Further earnings upside can be derived from 3DP's 3D Insights data marketplace.

Historical earnings and RaaS forecasts

Year end	ACV ^A (US\$m)	Sales Revenue (A\$m)	Gross Profit (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/19a	1.3	0.4	0.9	(1.9)	(1.9)	(0.4)	nm	nm
06/20a	2.9	1.2	1.8	(1.7)	(1.8)	(0.3)	nm	nm
06/21e	10.2	5.0	5.1	(0.6)	(0.7)	(0.1)	nm	nm
06/22e	19.0	14.9	13.8	5.7	5.7	0.9	35.52	93.29

Source: Company data for historical earnings, RaaS estimates for FY21e and FY22e ^AAnnual Contract Value at period end

Software & services

1st March 2021

Share details

ASX Code	3DP
Share price (26 Feb)	\$0.81
Market Capitalisation	\$543M
Shares on issue	671M
Net cash 31 Dec 2020	\$4.1M

Share performance (12 months)



Upside Case

- Highly scalable business model
- Endorsed by tech veteran's recent investment in the stock
- Substantial growth opportunities in US market

Downside Case

- Long enterprise sales cycle taking 9-12 months
- Competing with multinationals for business
- Substantial growth built into current share price

Catalysts

- Demonstrated substantial growth in ACV
- Additional wins with US utilities
- Development of data marketplace

Board of Directors

Neville Bassett	Non-Executive Chairman
Paul Farrell	Non-Executive Director
Ian Olson	Managing Director/CEO

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Key points from H1 FY21 result

Pointerra reported H1 FY21 sales revenue of \$1.56m, an increase of 218% on H1FY20. This underpinned an improved net loss of \$0.94m compared with a net loss of \$1.32m in H1 FY20 and our forecast for a net loss of \$1.23m. Timing differences in revenue recognition and a higher AUD/USD exchange rates were the two key differences between reported revenue and our forecast as set out in the following exhibit. Conversion of new ACV to revenue in the half was 33%, lower than the 50-55% we use in our model and reflecting that the bulk of the new contracts came later in the half. Offsetting this was good cost containment across non-revenue generating costs. The company invested in people and R&D in the half which is reflected in the rising Annual Contract Value (ACV), although we had forecast higher people costs for the half year.

Exhibit 1: H1 FY21 vs H1 FY20 and RaaS forecast				
	H1 FY20	H1 FY21	% chg	RaaS Fct
ACV US\$m	1.90	6.88	262%	6.88
Sales revenue	0.49	1.56	218%	1.87
Gross Profit	0.49	1.43	191%	1.66
EBITDA	(1.30)	(1.00)	(23%)	(1.11)
NPAT	(1.32)	(0.94)	(28%)	(1.23)
EPS	(0.24)	(0.15)	(39%)	(0.18)

Source: Company data, RaaS estimates

Earnings adjustment

We have made some small adjustments to our forecasts for FY21, chiefly flowing through from the first half result. We have also adjusted our AUD/USD forecast to \$0.78 which has impacted both near term and longer term forecasts. The changes are set out in the following table. We note that Pointerra is in the process of launching its data marketplace which we have not yet incorporated into our forecasts as there is little visibility on the parameters. We would expect this to derive additional revenue for the company.

Exhibit 2: Earnings adjustments						
Year ending June 30	FY21 old	FY21 new	% chg	FY22 old	FY22 new	% chg
ACV US\$m	10.22	10.17	(0.5%)	19.11	18.97	(0.7%)
Sales Revenue	5.36	4.98	(7.0%)	15.46	14.85	(3.9%)
Total Revenue	6.48	5.56	(14.1%)	15.95	15.23	(4.6%)
Gross Profit	4.77	4.53	(5.0%)	13.76	13.44	(2.3%)
EBITDA	0.01	(0.59)	nm	5.64	5.65	0.2%
NPAT	(0.15)	(0.70)	nm	5.72	5.71	(0.3%)
EPS	(0.02)	(0.12)	nm	0.85	0.85	(0.3%)

Source: RaaS estimates

DCF valuation

In our view, given the early stage nature of Pointerra's business, the discounted cashflow methodology to be the most appropriate method for valuing the company. We derive a weighted average cost of capital (WACC) of 14.0% (beta 1.8, terminal growth rate 2.2%) and this gives us a base case valuation of \$502.9m or \$0.75/share. We use an equity risk premium of 6.5% and risk free rate of 2.0% (we have recently adjusted these from 7.0% and 1.0% to reflect the rising 10-year Treasury bond rate). Our terminal value accounts for \$0.45/share in the valuation. This implies an EV/Revenue multiple of 14.7x based on our FY23 forecasts and EV/EBITDA multiple of 24.5x of the same year.

Our valuation is predicated on Pointerra reaching an ACV of US\$50m by FY25. If the company were to reach ACV of US\$50m a year earlier at FY24, our DCF valuation would rise to \$1.47/share. If it takes longer, with ACV reaching US\$50m in December 2024, our valuation falls to \$0.47/share.

Exhibit 3: DCF valuation

DCF valuation	Parameters
Discount Rate / WACC	14.0%
Beta	1.9
Equity Risk Premium	7.0%
Risk Free Rate	0.5%
Terminal growth rate	2.2%
CAGR in FCF FY22-30	57.7%
Sum of PV (A\$m)	189.4
PV of terminal Value (A\$m)	309.4
PV of Enterprise	498.8
Net Cash at 31 December 2021	(4.1)
Net Value - Shareholder	502.9
No of shares on issue	670.7
NPV in A\$	\$0.75

Source: RaaS Analysis

While it might be tempting to chase the current share price, we prefer to adjust the valuation as the company delivers on its strategy and we expect that it will do so over the coming 12 months. The valuation is sensitive to the discount rate, which as the following exhibit shows, the lower the rate, the higher the valuation.

Exhibit 4: Discount rate sensitivity

WACC	Valuation
11.0%	\$ 1.14
11.5%	\$ 1.06
12.0%	\$ 0.98
12.5%	\$ 0.91
13.0%	\$ 0.85
13.5%	\$ 0.80
14.0%	\$ 0.75
14.5%	\$ 0.70
15.0%	\$ 0.66
15.5%	\$ 0.62
16.0%	\$ 0.58
16.5%	\$ 0.55
17.0%	\$ 0.52

Source: RaaS analysis

Exhibit 5: Financial Summary

Pointerra Ltd						Share price (26 February 2021)						A\$	0.81					
Profit and Loss (A\$m)						Interim (A\$m)						H119F	H219F	H120A	H220A	H121F	H221F	
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Annual contract revenue (US\$)	0.68	1.27	1.90	2.87	6.88	10.17						
Annual contract value (US\$m)	n.a	1.3	2.9	10.2	19.0	Revenue	0.1	0.3	0.5	0.7	1.6	4.0						
Sales Revenue	0.3	0.4	1.2	5.0	14.9	EBITDA	(1.3)	(0.5)	(1.3)	(0.4)	(1.0)	0.4						
Total Revenue	0.8	0.9	1.9	5.6	15.2	EBIT	(1.3)	(0.6)	(1.3)	(0.5)	(1.0)	0.2						
Gross Profit	0.8	0.9	1.8	5.1	13.8	NPAT (normalised)	(1.3)	(0.6)	(1.3)	(0.5)	(0.9)	0.2						
EBITDA	(1.5)	(1.9)	(1.7)	(0.6)	5.7	Minorities	-	-	-	-	-	-						
Depn	(0.0)	(0.0)	(0.0)	(0.1)	0.0	NPAT (reported)	(1.3)	(0.7)	(1.3)	(1.2)	(0.9)	0.2						
Amort	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	EPS (normalised)	(0.27)	(0.12)	(0.24)	(0.10)	(0.15)	0.03						
EBIT	(1.5)	(1.9)	(1.8)	(0.7)	5.7	EPS (reported)	(0.26)	(0.13)	(0.25)	(0.20)	(0.15)	0.03						
Interest	0.0	0.0	(0.0)	0.0	0.0	Dividend (cps)	-	-	-	-	-	-						
Tax	0.0	0.0	0.0	0.0	0.0	Imputation	-	-	-	-	-	-						
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(0.6)	(0.8)	(0.7)	(0.1)	(0.7)	1.7						
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(0.6)	(0.8)	(0.7)	(0.0)	(0.7)	1.7						
NPAT pre significant items	(1.5)	(1.9)	(1.8)	(0.7)	5.7	Divisions	H119F	H219F	H120A	H220A	H121F	H221F						
Significant items	0.0	(0.0)	(0.7)	0.0	0.0	Contract revenue	0.1	0.3	0.5	0.7	1.6	3.4						
NPAT (reported)	(1.7)	(1.9)	(2.5)	(0.7)	5.7	R&D grants	0.0	0.5	0.0	0.7	0.0	0.5						
Cash flow (A\$m)						Total Revenue	0.1	0.8	0.5	1.4	1.6	4.0						
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	COGS	0.0	0.0	0.0	0.1	0.1	0.3						
EBITDA	(1.5)	(1.9)	(1.7)	(0.6)	5.7	Gross Profit	0.1	0.8	0.5	1.3	1.4	3.6						
Interest	0.0	0.0	(0.0)	0.0	0.0	R&D costs	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)						
Tax	0.0	0.0	0.0	0.0	0.0	Employment	(0.9)	(0.8)	(1.1)	(1.2)	(1.7)	(2.5)						
Working capital changes	0.1	0.4	0.9	3.1	4.3	General & Admin costs	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)						
Operating cash flow	(1.4)	(1.4)	(0.8)	2.5	10.0	Other costs	(0.1)	(0.0)	(0.1)	0.0	(0.2)	(0.2)						
Mtce capex	(0.0)	(0.0)	(0.1)	(0.0)	0.0	EBITDA	(1.3)	(0.5)	(1.3)	(0.4)	(1.0)	0.4						
Free cash flow	(1.4)	(1.5)	(0.9)	2.4	10.0	Margins, Leverage, Returns		FY18A	FY19A	FY20A	FY21F	FY22F						
Growth capex	(0.0)	(0.0)	(0.0)	(0.0)	0.0	EBITDA		(481.3%)	(419.2%)	(138.7%)	(11.9%)	38.1%						
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBIT		(494.4%)	(430.6%)	(147.1%)	(15.0%)	38.1%						
Other	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items		(487.4%)	(429.0%)	(149.4%)	(14.0%)	38.4%						
Cash flow pre financing	(1.4)	(1.5)	(0.9)	2.4	10.0	Net Debt (Cash)			1.4	0.9	2.3	5.8						
Equity	0.0	1.2	2.5	2.9	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	2.8						
Debt	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(867.7%)	448.2%	209.0%	246.7%	238.2%						
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-						
Net cash flow for year	(1.4)	(0.4)	1.6	5.3	10.0	ROA			(100.0%)	(69.5%)	(13.1%)	40.1%						
Balance sheet (A\$m)						ROE			(168.0%)	(258.4%)	(29.9%)	90.7%						
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	ROIC			126.1%	149.1%	48.5%	(159.9%)						
Cash	1.4	0.9	2.3	6.2	16.2	NTA (per share)		0.00	0.00	0.00	0.01	0.01						
Accounts receivable	0.6	0.5	0.6	1.3	3.8	Working capital			0.1	0.0	(0.2)	1.0						
Inventory	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		43.6%	8.0%	(15.5%)	19.3%	18.3%						
Other current assets	0.0	0.1	0.0	0.0	0.0	Revenue growth				42.1%	176.9%	305.5%	198.2%					
Total current assets	2.0	1.6	3.0	7.5	20.0	EBIT growth pa		n/a	n/a	n/a	n/a	(857.1%)						
PPE	0.1	0.1	0.1	(0.0)	(0.0)	Pricing		FY18A	FY19A	FY20A	FY21F	FY22F						
Intangibles and Goodwill	0.1	0.1	0.1	0.1	0.0	No of shares (y/e)	(m)	494	521	613	671	671						
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	407	509	559	671	671						
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.4)	(0.4)	(0.5)	(0.1)	0.8						
Other non current assets	0.0	0.0	0.4	0.4	0.4	EPS Normalised/Diluted	cps	(0.4)	(0.4)	(0.3)	(0.1)	0.9						
Total non current assets	0.1	0.1	0.5	0.4	0.4	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	(834.6%)						
Total Assets	2.1	1.7	3.5	7.9	20.4	DPS	cps	-	-	-	-	-						
Accounts payable	0.5	0.5	0.8	0.3	1.1	DPS Growth		n/a	n/a	n/a	n/a	n/a						
Short term debt	0.0	0.0	0.0	0.1	0.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%						
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0						
Deferred revenue	0.1	0.4	1.2	3.7	9.8	PE (x)		-	-	-	-	-						
Total current liabilities	0.6	0.9	2.0	4.1	10.9	PE market		18.0	18.0	18.0	18.0	18.0						
Long term debt	0.0	0.0	0.0	0.3	0.3	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	432.2%						
Other non current liabs	0.0	0.0	0.3	0.0	0.0	EV/EBITDA		nm	nm	nm	nm	93.3						
Total long term liabilities	0.0	0.0	0.3	0.3	0.3	FCF/Share	cps	(0.3)	(0.3)	(0.1)	0.4	1.5						
Total Liabilities	0.6	0.9	2.3	4.5	11.2	Price/FCF share		(295.3)	(297.5)	(669.5)	215.4	54.4						
Net Assets	1.5	0.7	1.2	3.4	9.2	Free Cash flow Yield		(0.3%)	(0.3%)	(0.1%)	0.5%	1.8%						
Share capital	5.7	6.8	9.2	12.1	12.1													
Accumulated profits/losses	(5.7)	(7.6)	(10.2)	(11.0)	(5.3)													
Reserves	1.5	1.6	2.2	2.3	2.3													
Minorities	0.0	0.0	0.0	0.0	0.0													
Total Shareholder funds	1.5	0.7	1.2	3.4	9.2													

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

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