

Damstra Holdings Ltd

Consolidating the workplace solutions market

Damstra Holdings is an Australian-based integrated workplace solutions software provider across multiple industries and clients around the globe. Damstra tracks employees and ensure they are compliant, that all occupational health, safety and environment measures are in place, that employee training is up to date and that each site is compliant. The company listed on the ASX in October 2019 after raising \$49.3m at \$0.90/share, including \$14.3m in vendor shares. Since listing, Damstra has acquired four companies, including Vault set to be finalised in October, consistent with its stated strategy to pursue acquisitions that provide entry to new markets, consolidate existing markets, deliver new clients and cross-selling opportunities and deepen the company's product and technology capabilities. Combined, these acquisitions have cost Damstra just over \$65m, predominantly in scrip, and have delivered market consolidation, new product capability and clients. The company has reported FY20 total revenue and income of \$23.7m, up 47% of the previous corresponding period and ahead of its prospectus forecast for \$21.3m, and EBITDA underlying of \$4.8m, compared with its prospectus forecast for \$4.3m and FY19 EBITDA of \$1.8m.

Business model

Damstra Holdings operates a SaaS technology platform for workplace solutions software across multiple industry sectors. On average around 90% of revenues are recurring and underpinned by client contracts which are three+ years in duration. The company generates revenue from pre-paid annual subscription fees for its software licences, monthly payments for hardware rentals and maintenance, fees for hardware install and maintenance and online training fees. Subscription fees account for two-thirds of revenue while hardware generates around 20%.

Recent company commentary

Damstra has reported revenue of \$19.6m for FY20, up 28.1% on FY19. Total income was \$23.5m. Licence fees for the year were \$15.2m, ahead of prospectus for \$14.8m and up from \$13.2m a year ago while hardware revenue was \$4.4m, below the \$4.9m forecast in prospectus but well ahead of the \$2.0m reported in FY19. Underlying EBITDA was \$4.8m, ahead of prospectus forecast while the adjusted net loss after tax was \$1.3m, compared with a net loss of \$3.7m a year ago. The company noted that July revenues were up 35% on the previous corresponding period and that recurring revenue was greater than 90%. Damstra reaffirmed its FY21 guidance for revenues from \$33-35m which includes \$8m forecast from the soon to be acquired Vault Intelligence (ASX:VLT).

Consensus for 27% sales CAGR, EBITDA CAGR 37% to FY22

Damstra has delivered a little ahead of consensus in FY20, having informed the market previously that it would beat its prospectus forecast for EBITDA. Consensus (three analysts) for FY21 is for revenue of \$34.2m, EBITDA of \$8.2m and NPAT of \$1.0m, while for FY22, consensus is for \$44.8m in revenue, \$14.5m in EBITDA and \$3.9m in NPAT. These numbers include the forecast contribution from Vault Intelligence. This translates into sales CAGR of 27% and EBITDA CAGR of 37% to FY22. Damstra is trading ahead of its listed SaaS peers which are trading on a median of 3.5x EV/Revenue (1 year forward consensus revenue), versus DTC on 7.6 times FY21 consensus revenue.

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

Year end	Revenue	Gross Profit	EBITDA Adj.*	NPAT Adj.*	NPAT Rep.	EPS Adj.*(c)	EPS Rep. (c)	^EV/ Sales (x)	^EV/ EBITDA (x)
06/18a	11.1	7.4	(1.7)	(4.0)	(4.0)	na	na	na	na
06/19a	15.3	8.9	1.8	(3.7)	(3.7)	(4.11)	(4.14)	na	na
06//20a	19.6	14.1	4.8	(1.3)	(3.8)	(1.04)	(3.05)	13.7	39.4

Source: Company data *EBITDA and NPAT adj for one-time and non-cash items ^Year end share price used

Software services

4 September 2020

Share details

ASX Code	DTC
Share price (3-Sep)	\$1.88
Market Capitalisation	\$262.3M
Shares on issue	139.5M
Net cash at 30/06/2020	\$4.0M
Free float	54.37%

Share performance (since listing)



Upside Case

- Listing has given it the currency to consolidate a fragmented sector
- Operating cash to EBITDA conversion <90%
- Will be a beneficiary of infrastructure spend through its client base

Downside Case

- Long lead times in securing enterprise clients
- Trading at a significant premium to peer group
- Integration risk with acquisitions

Catalysts/upcoming events

Confirmation of that \$4m in synergies from Vault acquisition met

Delivering on guidance for \$33-35m in FY21

Comparable companies (Aust/NZ)

Limeade Inc (ASX:LME), Atomos (ASX:AMS), Class Ltd (ASX:CL1), Elmo Software (ASX:ELO)

Top 5 shareholders

Johannes Risseeuw	13.71%
Christian Damstra	13.64%
Regal Funds Management Pty Ltd	8.66%
AustralianSuper	6.02%
Perennial Value Management Ltd	4.94%

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FINANCIAL SERVICES GUIDE

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