

Future First Technologies Ltd

Earnings upgrade

Upgrading forecasts & valuation on contract wins/EagleSoft

Future First Technologies Limited (ASX:FFT) is building a portfolio of digital assets that seek to make life simpler and safer. The company owns two key businesses, farmbuy.com and Asset Vision, which it respectively acquired in April and November 2020, and an 8.8% stake in fintech start up 1derful.com.au. The company announced last week that it had completed the acquisition of AI data capture company EagleSoft and that at the same time, EagleSoft had won a significant contract to analyse more than 5,000 kms of road in Victoria on behalf of DM Roads, a division of Downer EDI (ASX:DOW) and Regional Roads Victoria. We have incorporated EagleSoft into our Asset Vision forecasts and have reflected in our FY22 forecasts that Asset Vision has an annualised revenue base of \$2.5m following the multi-year contract it secured in May with Ventia's transport portfolio. This has resulted in upgrades to our FY22 and FY23 forecasts and to our base case DCF valuation to \$0.24/share fully diluted for the EagleSoft earnouts from \$0.17/share previously.

Business model

FFT generates its revenue from its fully-consolidated entities, Asset Vision and farmbuy.com. In the near term, Asset Vision's revenues and earnings will be the key driver of earnings and profitability. Asset Vision operates a SaaS model, generating enterprise contracts with corporates and government to digitally manage assets. Its contracts are usually 3-5 years in duration. Asset Vision's business began with state and local government responsible road authorities and their road maintenance contractors, with its cloud-based asset management platform delivering a simpler way to manage road inspections, schedule maintenance and capital works and optimising the authorities' asset register. The platform now spans assets across rail, buildings, utilities and parks and open spaces. In late May, Asset Vision noted its annualised revenue base was now exceeding \$2.5m. Farmbuy.com delivers an online marketplace for rural property agencies, buyers and sellers, attracting more than 1m unique visitors a year and on track to deliver an annualised revenue run-rate of more than \$1m by December 2021. Farmbuy.com recently launched a sister website, goregional.com.au to help Australians make the move to regional areas, showcasing 12,000+ regional properties for sale or lease and integrating with seek.com.au (ASX:SEK) to display 70,000+ regional jobs.

Upgrading forecasts for EagleSoft & Asset Vision contract wins

We have upgraded our forecasts to reflect the EagleSoft acquisition, which includes the Regional Roads Victoria contract win (estimated at \$0.36m in year 1 and \$0.2m ongoing), the annualised revenue run rate that EagleSoft will need to deliver to secure its earnouts and the better than forecast growth in annualised revenue within Asset Vision to \$2.5m at the end of May. This has resulted in an 16.3% upgrade to our FY22 revenue forecasts for the group and a 39.4% increase in our FY23 revenue forecasts.

DCF valuation is \$0.24/share (previously \$0.17/share)

We use the discounted cashflow methodology to value FFT using a WACC of 14.5% (beta 1.9, terminal growth rate of 2.2%) and this derives an equity value of \$0.24/share, fully diluted for the EagleSoft earnout which is expected to be settled 50% in shares. On the current share count, the valuation is \$0.27/share. Our valuation was previously \$0.17/share. Our model incorporates earnings forecasts for both Asset Vision and farmbuy.com with the investment in 1derful at face value.

Earnings History and RaaS' Estimates

Year end	Total Revenue (A\$m)	Gross Profit (A\$m)	EBITDA(A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)
06/20a	51.1	51.1	5.2	3.8	0.61	0.7
06/21e	1.2	1.1	(3.2)	(4.7)	(1.70)	18.4
06/22e	3.1	2.8	(3.0)	(3.4)	(0.81)	7.9
06/23e	6.0	5.3	(2.2)	(2.3)	(0.54)	4.7

Source: RaaS Advisory Estimates for FY21e, FY22e and FY23e, Company Data for historical earnings

Software & Services

5th July 2021

Share details

ASX Code	FFT
Share price (intraday)	\$0.068
Market Capitalisation	\$28.2M
Shares on issue	415.3M
Net cash (est)	~\$7.2M

Share performance (12 months)



Upside Case

- Transitioned to SaaS businesses with growth leverage
- Clean balance sheet, debt free
- Demonstrated commitment to delivering shareholder returns

Downside Case

- Little history on continuing businesses
- Farmbuy is still early stage and may require more capital
- Asset Vision's enterprise clients have longer lead times (9-12 months) for making decisions

Catalysts

- Expansion of Farmbuy into additional agents, other business lines
- Conversion of Asset Vision's pipeline into contracts
- Further evidence of operational momentum

Board of Directors

Renata Sguario	Non-Executive Chair
Keith Falconer	Managing Director
Nicole Ferro	Non-Executive Director
Nicholas Chan	Non-Executive Director

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Upgrade to Asset Vision forecasts

Asset Vision has acquired EagleSoft for \$1.5m in cash, 15m in FFT shares (settled at \$0.064/share) and an \$8m earnout over three years, conditional on revenue targets being met. On the day of settlement, July 1, EagleSoft won a significant contract to service Downer EDI's DM Roads division and Regional Roads Victoria. The contract will see EagleSoft's EagleEye platform analyse more than 5,000 kms of regional roads. We estimate this contract will generate \$0.36m in revenue for EagleSoft in year 1 and \$0.2m a year ongoing. Our forecasts anticipate that EagleSoft will meet its earnout requirements and generate annualised revenues of \$2m in year 2 and \$3m in year 3 of FFT's ownership. We have also taken into account that Asset Vision's annualised revenues have reached \$2.5m (Future First Technologies ASX announcement 26 May, 2021). As a consequence we have upgraded our FY22 revenue forecast for Asset Vision by 23% to \$2.3m and FY23 revenue forecast by 63.7% to \$4.3m.

Exhibit 1: Asset Vision earnings adjustment

	FY22 old	FY22 new	FY23 old	FY23 new
Revenue	1.88	2.31	2.65	4.33
Gross Profit	1.83	2.25	2.57	4.21
EBITDA	(0.28)	(0.04)	0.20	0.37

Source: Company data, RaaS estimates

The earnings upgrade for Asset Vision has flowed through to our group revenue and earnings forecasts. We are now forecasting revenues of \$3.08m in FY22, up 16.3% on our previous estimates and \$5.96m in FY23. While we anticipate that FFT will still be loss making in FY22 and FY23, we expect these losses to be lower than previously anticipated. Our change in forecasts is set out in Exhibit 2.

Exhibit 1: Future First Technologies earnings adjustments

	FY22 old	FY22 new	FY23 old	FY23 new
Revenue	2.65	3.08	4.27	5.96
Gross Profit	2.36	2.78	3.71	5.35
EBITDA	(3.25)	(3.01)	(2.38)	(2.21)
NPAT	(3.66)	(3.42)	(2.43)	(2.29)
EPS	(0.91)	(0.81)	(0.61)	(0.54)

Source: RaaS estimates

Base Case DCF valuation increased to \$0.24/share fully diluted

We believe the discounted cashflow methodology is the most appropriate method to value FFT, given the relatively early stage of both Farmbuy.com and Asset Vision. We arrive at a base case valuation of \$0.24/share after applying a WACC of 14.5% and terminal growth rate of 2.2% to our base case free cashflows. The terminal value accounts for \$0.18/share of our valuation. We also apply full dilution for the \$8m EagleSoft earnout, which will be earned over the next three years with the second and third tranche subject to meeting annualised revenue hurdle rates which we estimate as \$2m and \$3m respectively. We have assumed that 50% of the earnout will be paid in shares and applied the same price (\$0.064/share) that the initial 15m tranche was paid. Based on the current share count of 415.4m shares, the valuation is \$0.27/share.

Exhibit 3: Base Case DCF valuation

	Parameters
Discount rate (WACC)	14.5%
Terminal Growth Rate	2.2%
Beta	1.9
Present value of free cashflows (\$m)	26.4
Terminal value (\$m)	77.4
Plus Net Cash post EagleSoft acquisition (est)	(7.2)
Plus 8.8% equity stake in 1derful	2.8
Equity value (\$m)	113.7
Shares on issue (fully diluted for EagleSoft earnout)	477.9
Equity value per share	\$0.24

Source: RaaS estimates

Exhibit 4: Financial Summary

Future First Technologies (FFT)						Share price (5 July 2021 intraday)						A\$	0.07				
Profit and Loss (A\$m)						Interim (A\$m)						H121A	H221F	H122F	H222F	H123F	H223F
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	Revenue	1.0	0.9	1.2	1.9	2.6	3.4					
Sales revenue	51.1	1.2	3.1	6.0	9.8	EBITDA	(1.5)	(1.8)	(1.7)	(1.3)	(1.4)	(0.9)					
Total Revenue	54.5	2.0	3.1	6.0	9.8	EBIT	(4.9)	(2.0)	(1.9)	(1.5)	(1.5)	(1.1)					
Gross Profit	51.1	1.1	2.8	5.3	8.8	NPAT (normalised)	(5.6)	(2.0)	(1.9)	(1.5)	(1.6)	(0.7)					
EBITDA	5.2	(3.2)	(3.0)	(2.2)	0.3	Minorities	0.0	0.0	0.0	0.0	0.0	0.0					
Depn	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	NPAT (reported)	(11.2)	(2.0)	(1.9)	(1.5)	(1.6)	(0.7)					
Amort	(0.4)	(0.7)	(0.4)	(0.4)	(0.3)	EPS (normalised)	(2.4)	(0.5)	(0.5)	(0.4)	(0.4)	(0.2)					
EBIT	4.6	(4.0)	(3.4)	(2.6)	(0.1)	EPS (reported)	(2.4)	(0.5)	(0.5)	(0.4)	(0.4)	(0.2)					
Interest	(1.1)	(0.2)	0.0	(0.0)	(0.0)	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0					
Tax	0.4	(0.5)	0.0	0.3	0.0	Imputation	0.0	0.0	0.0	0.0	0.0	0.0					
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(0.7)	(2.1)	0.6	(1.4)	2.4	(1.1)					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(0.7)	(2.2)	0.6	(1.5)	2.4	(1.1)					
NPAT pre significant items	3.8	(4.7)	(3.4)	(2.3)	(0.1)	Divisions	H121A	H221F	H122F	H222F	H123F	H223F					
Significant items	(0.8)	(5.6)	0.0	0.0	0.0	Asset Vision											
NPAT (reported)	3.0	(10.2)	(3.4)	(2.3)	(0.1)	Revenue	0.2	0.9	1.0	1.3	1.9	2.5					
Cash flow (A\$m)						Gross Profit	na	0.8	0.9	1.3	1.8	2.4					
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	EBITDA	(0.0)	(0.1)	(0.2)	0.1	(0.0)	0.4					
EBITDA	5.2	(3.2)	(3.0)	(2.2)	0.3	farmbuy											
Interest	(1.1)	(0.2)	0.0	(0.0)	(0.0)	Revenue	0.0	0.1	0.2	0.5	0.7	0.9					
Tax	0.6	(0.1)	0.0	0.0	(0.1)	Gross Profit	na	0.1	0.2	0.4	0.5	0.6					
Working capital changes	(5.5)	0.7	2.2	3.5	1.3	EBITDA	(0.5)	(0.7)	(0.6)	(0.4)	(0.3)	(0.2)					
Operating cash flow	(0.9)	(2.8)	(0.8)	1.3	1.5	Corporate costs	(0.7)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)					
Mtce capex	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	Group EBITDA	(1.2)	(1.8)	(1.7)	(1.3)	(1.4)	(0.9)					
Free cash flow	(1.0)	(2.9)	(0.9)	1.2	1.5	Note that Asset Vision was only included from 2 November 2020											
Growth capex	(0.1)	(0.0)	(0.0)	(0.0)	(0.1)	Margins, Leverage, Returns		FY20A	FY21F	FY22F	FY23F	FY24F					
Acquisitions/Disposals	6.8	19.4	(2.5)	(4.0)	(2.0)	EBITDA		9.5%	(163.9%)	(97.8%)	(37.1%)	2.8%					
Other	(0.1)	(4.4)	0.0	0.0	0.0	EBIT		8.5%	(201.5%)	(111.5%)	(43.6%)	(0.8%)					
Cash flow pre financing	5.6	12.1	(3.4)	(2.8)	(0.6)	NPAT pre significant items		7.0%	(235.7%)	(111.0%)	(38.5%)	(0.6%)					
Equity	2.5	(6.3)	1.0	2.0	3.7	Net Debt (Cash)		0.5	6.3	3.9	3.1	6.3					
Debt	(10.3)	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	0.101	n/a	n/a	n/a	22.952					
Dividends paid	(0.5)	(0.1)	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(1.4%)	(51.7%)	(32.2%)	(25.0%)	(47.9%)					
Net cash flow for year	(2.6)	5.7	(2.4)	(0.8)	3.0	EBIT interest cover (x)	(x)	0.2	n/a	n/a	n/a	n/a					
Balance sheet (A\$m)						ROA		nm	(11.5%)	(15.1%)	(12.2%)	(0.3%)					
Y/E 30 June	FY20A	FY21F	FY22F	FY23F	FY24F	ROE		nm	(36.8%)	(19.8%)	(14.4%)	(0.3%)					
Cash	1.5	7.2	4.8	4.0	7.1	ROIC		nm	(35.1%)	(21.5%)	(25.5%)	(0.6%)					
Accounts receivable	7.1	0.2	0.5	1.0	1.6	NTA (per share)		0.01	0.02	0.01	0.01	0.02					
Inventory	0.0	0.0	0.0	0.0	0.0	Working capital		4.8	0.2	0.5	0.9	1.5					
Other current assets	2.5	0.1	0.1	0.1	0.1	WC/Sales (%)		8.9%	9.6%	15.0%	14.9%	14.9%					
Total current assets	11.1	7.5	5.4	5.1	8.9	Revenue growth		nm	(96.4%)	55.9%	93.6%	64.9%					
PPE	0.2	0.2	0.3	0.3	0.4	EBIT growth pa		nm	n/a	n/a	n/a	n/a					
Intangibles inc Goodwill	31.5	9.9	9.9	9.9	9.9	Pricing		FY20A	FY21F	FY22F	FY23F	FY24F					
Investments	0.0	1.3	1.3	1.3	1.3	No of shares (y/e)	(m)	501	415	415	458	458					
Deferred tax asset	0.0	0.0	0.0	0.4	0.5	Weighted Av Dil Shares	(m)	340	400	423	423	466					
Other assets	2.6	5.0	4.6	4.2	3.9	EPS Reported	cps	0.76	(2.89)	(0.82)	(0.55)	(0.02)					
Total non current assets	34.3	16.4	16.0	16.1	16.0	EPS Normalised/Diluted	cps	0.61	(1.70)	(0.81)	(0.54)	(0.01)					
Total Assets	45.4	23.9	21.4	21.2	24.9	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	n/a					
Accounts payable	2.3	0.0	0.0	0.1	0.2	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Short term debt	0.5	0.5	0.5	0.5	0.5	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Tax payable	0.0	0.1	0.1	0.1	0.1	Dividend imputation		0	0	0	0	0					
Other current liabilities	4.8	4.1	4.1	4.1	4.1	PE (x)		9.0	-	-	-	-					
Total current liabilities	7.60	4.67	4.71	4.77	4.83	PE market		18.4	18.4	18.4	18.4	18.4					
Long term debt	0.4	0.4	0.4	0.4	0.4	Premium/(discount)		(51.3%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)					
Other non current liabs	0.3	0.3	0.3	0.3	0.3	EV/EBITDA		6.5	(6.8)	(8.1)	0.0	0.0					
Total long term liabilities	0.69	0.71	0.71	0.71	0.71	FCF/Share	cps	(0.2)	(0.7)	(0.2)	0.3	0.3					
Total Liabilities	8.3	5.4	5.4	5.5	5.5	Price/FCF share		(44.9)	(10.1)	(36.7)	22.9	20.0					
Net Assets	37.1	18.5	16.0	15.7	19.3	Free Cash flow Yield		(2.2%)	(9.9%)	(2.7%)	4.4%	5.0%					
Share capital	90.4	85.0	86.0	88.0	91.6												
Accumulated profits/losses	(54.8)	(68.0)	(71.5)	(73.8)	(73.8)												
Reserves	1.5	1.5	1.5	1.5	1.5												
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	37.1	18.5	16.0	15.7	19.3												

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

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