

Taking on Adobe's suite spot

Founded in 2005, NTO came to the ASX in December 2019, listing at \$1.72/share for a capitalisation of \$325m. The listing was aimed at facilitating growth for NTO as a document productivity software company aimed at driving digital transformation in organisations. The Nitro Productivity Suite provides integrated PDF productivity, eSignature, and business intelligence tools to customers through a horizontal, SaaS desktop-based software suite. NTO has more than 2.2m licenses sold, and over 11,000 business customers in 144 countries around the world, including over 68% of the 2019 Fortune 500 and two of the 2019 Fortune 10. NTO's prospectus highlights that the company will likely not achieve positive cashflow until after Dec 2020. NTO products compete with Adobe's Acrobat suite for PDF productivity and DocuSign's eSigning.

Business model

Nitro provides two key platforms which allow integration between desktop and cloud-based usage (Nitro Pro and Nitro Sign) and additionally enables insights into user workflows with Nitro Analytics. These products enable users to create and sign digital documents and allow large and small businesses to quantify user adoption, reduction in printing and improvement in user productivity and efficiency as a means of reducing the cost of printing and managing physical documents. Nitro is a facilitator of the transition to an entirely digital workflow solution. Since 2008 user licences have grown at a CAGR of 59%. NTO commenced a transition from a perpetual licence model to a SaaS subscription licence in 2016. By H1FY19 34% of revenue was generated from subscription licences. Nitro's IT infrastructure uses a robust application structure with cloud services and other back-end infrastructure based on Linux servers hosted by AWS.

Strong price performance since IPO

Vendor shares comprising 33% of issued capital will likely be released from escrow at the half year result provided the 10-day VWAP exceeds 20% of the IPO price. The share price sits at a 37% premium to IPO driven by investors happy to buy digital economy stocks. For the FY20 year the company expects contracted revenue of \$30m or 74% of the total. Actual H1 FY20 subscription revenues were 48% of revenue, up from 37% of revenue for H1FY19, an equating to a 60% increase half-on-half. The company reported total revenues of US\$19.1m for the half year, an increase of 14% over the previous corresponding period. The EBITDA loss for the half was \$1.6m, compared with \$1.5m a year before. The company ended the half year with US\$43.9m in net cash, which was US\$8.7m ahead of the prospectus plan for US\$35.2m. Nitro noted that this was sufficient cash to meet its working capital needs and expansion plans including acquisitions. The company has reaffirmed its CY20 prospectus forecasts for revenue of US\$40.5m, Gross Profit of US\$35.9m and EBITDA loss of US\$5.3m.

Nitro still at an early stage of market penetration

Adobe (for PDF productivity) and DocuSign (for eSigning) remain the elephants in the space but NTO's scalable and integrated solution offers an attractive alternative. The SaaS model is driving greater usage and increased penetration of large companies. User and customer growth matches management's prospectus predictions. (12/20e below is prospectus pro-forma).

Historical earnings and ratios

Year end	Revenue (US\$m)	Gross Profit (US\$m)	EBITDA (US\$m)	NPAT. (US\$m)	EPS (USc)	EV/Sales (x)
12/17a	27.9	24.2	(6.70)	(11.0)	n.a.	n.a.
12/18a	32.4	28.6	(2.80)	(5.5)	n.a.	n.a.
12/19a	35.7	32.0	(3.80)	(7.9)	(4.0)	9.5
12/20e [^]	40.5	35.9	(5.30)	(10.1)	(5.3)	8.3

Source: Company data [^]Prospectus forecast

Software and Services

4 September 2020

Share details

ASX Code	NTO
Share price (3-Sep)	\$2.22
Market Capitalisation	\$432.1M
Shares on issue	190.4M
Net cash at 30/06/2020	US\$43.9M
Free float	50.5%

Share performance (since listing)



Upside Case

- Pandemic has accelerated take-up of digital based working
- SaaS model improves recurring revenues
- Scalable product with high customer retention

Downside Case

- Varied internal and external solutions to these issues
- Profitability not yet demonstrated - loss-making since inception with US\$50m sunk cost
- Competitors include large well-funded entities and smaller nimble entities

Catalysts/upcoming events

Delivery on CY20 prospectus forecasts

Comparable companies (Aust/NZ)

Elmo Software (ASX:ELO), Altium (ASX:ALU), Livetiles (ASX:LVT), Damstra (ASX:DTC), Class (ASX:CL1), Xero (ASX:XRO)

Top 5 shareholders

John Dyson	13.77%
Michael Brown	13.07%
Vista (Trust) Singapore Pte Ltd	6.81%
Australian Ethical Investments	6.79%
Regal Funds Management Pty Ltd	6.71%

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FINANCIAL SERVICES GUIDE

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Effective Date: 26th November 2018



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