

Growing pains

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. The company has revised down its FY18 Contracted Annual Recurring Revenue (CARR) to \$3.31m from \$4.05m due to human error in the previous calculation. The adjustment has no impact on the reported numbers for FY18 however it does impact our forward estimates which are calculated using the last reported CARR. As a consequence, we have reduced our FY19 and FY20 revenue forecasts respectively by 13.6% and 6.1%. However, it should be noted that we are still forecasting revenue growth of 93% in FY19 and 52% in FY20 and this does not include Vault Solo. We have also taken into account higher employment costs for FY19 after noting the company's Q1 commentary and outlook for employment costs in Q2. After making these adjustments our base case DCF valuation excluding Vault Solo is \$0.042/share (previously \$0.045/share); including Solo this rises to \$0.354/share (previously \$0.358/share).

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. Future development includes the integration of Artificial Intelligence (AI) and the Internet of Things (IoT).

Revised CARR and Q1 result

Vault has announced that due to human error in the calculation of CARR, its previously reported FY18 CARR was overstated by \$0.74m and was \$3.31mm not \$4.05m. CARR in FY18 grew by 44% not 76% as previously thought. The CARR at the end of Q1 was \$3.76m with new CARR of \$0.4m from the rollout of Vault 3. The revised CARR and subsequent immediate steps put in place to ensure future accurate reporting reflects the benefit the still-young company is receiving from its recently bolstered board.

Earnings Adjustments and Valuation

We have revised down our revenue forecasts by 13.6% in FY19 to \$5.9m and 6.1% in FY20 to \$8.8m. These forecasts do not include the Vault Solo wearables product and app. Our forecasts have also been adjusted to reflect higher employee costs in FY19, due to the team being expanded to grow the business. Our base case valuation is \$0.042/share (previously \$0.045/share) and excludes our forecasted cashflows from the Vault Solo product. Including Vault Solo, our base case DCF rises to \$0.354/share (previously \$0.358/share). Our valuation is generated from a WACC of 12.0%, terminal value 2.0% and a CAGR of free positive cashflows from 2020 of 52%, with most of this captured in the near term. 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/EBITDA (x)
06/17	2.8	(3.1)	(3.5)	(0.56)	n.a.	n.a.
06/18	3.0	(2.6)	(2.7)	(0.34)	n.a.	n.a.
06/19e	6.8	(0.4)	(0.5)	(0.05)	n.a.	n.a.
06/20e	9.4	0.8	0.4	0.04	73.4	29.7

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

Software services

5 November 2018

Share details

ASX Code	VLT
Share price	\$0.022
Market Capitalisation	\$22.7M
Shares on issue	1,030M
Net cash at 30 Sept 2018	\$5.4M
Free float	~60%

Share performance (12 months)



Upside Case

- High profile customers and high customer retention levels (~96%)
- 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	Non-Executive Director

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Earnings Adjustments

We have adjusted our forecasts for FY19 and FY20 to reflect the revised CARR generated in FY18 and our expectation that this will flow through to the FY19 result. CARR is calculated as the annualised recurring revenue of all active subscriptions and annualised recurring revenue of any contracted subscriptions which are yet to commence. We are now forecasting that CARR in FY19 will be \$5.3m from the core Vault 3 product. Our revised forecasts also reflect higher employment costs as the company reported Q1 employment costs of \$1.03m and estimated that Q2 employment costs would be \$1.17m. We have lifted our employment estimates for FY19 by ~\$0.2m and this has flowed through to FY20. Our longer-term employment forecasts have not changed. 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	6.8	5.9	(13.6%)	9.4	8.8	(6.1%)
EBITDA	(0.4)	(1.3)	223.2%	0.8	0.3	(60.0%)
EBIT	(0.7)	(1.7)	139.5%	0.5	(0.0)	(104.3%)
NPAT	(0.5)	(1.1)	123.3%	0.4	0.1	(81.8%)
EPS (A\$)	(0.05)	(0.11)	126.8%	0.04	0.01	(84.7%)

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 \$0.042/share and uses a WACC of 12% (terminal value of 2%) to reflect the early stage nature of the business and the competitive landscape.

Including Vault Solo, our base case valuation is \$0.354/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	16.1
PV of terminal Value	21.0
PV of Enterprise	37.1
Debt (Cash)	-6.0
Net Value - Shareholder	43.1
No of shares on issue	1030.3
NPV	\$0.042

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	166.9
PV of terminal Value	188.8
PV of Enterprise	356.7
Debt (Cash)	(8.0)
Net Value - Shareholder	364.7
No of shares on issue	1030.3
NPV	\$0.354

Source: RaaS estimates

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

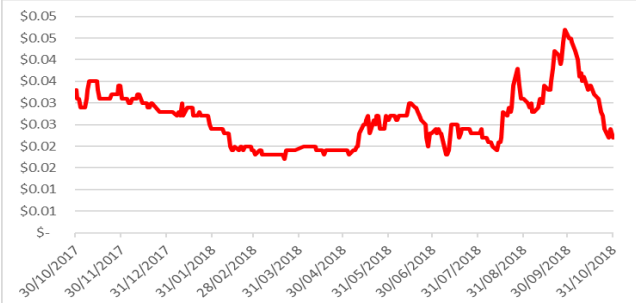
We set out some of the parameters we have used to reach these valuations:

- Base case revenues ex Solo are forecast to grow at a CAGR of 28% from 2019-2025 with contracted revenue growing respectively at 12% in FY19 and FY20 and 5% thereafter, delayed contract revenue of 50%, variable costs 20% of revenue and consulting revenue 25% of FY18's total revenue and growing at 2% thereafter;
- Base case revenues including Solo assume 25,000 users come onto the platform in Q219, paying \$12 per month for the functionality on the Samsung Galaxy watch; this rises to 150,000 by 2025;
- An upside case assumes 14% growth in CARRs in FY19 and FY20 and 7% thereafter, 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 takeup by 30,000 users in H119 rising to 187,500 by 2025;
- A downside case assumes 10% growth in CARR in FY19 and FY20 and 3% thereafter, 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 takeup 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)	\$ 0.042
Base case DCF valuation (inc Vault Solo)	\$ 0.354
An upside case DCF ex Solo	\$ 0.081
An upside case DCF inc Solo	\$ 0.495
A downside case DCF ex Solo	\$ 0.005
A downside case DCF inc Solo	\$ 0.206
Source: RaaS estimates	

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

Vault Intelligence Limited						Share price (31 October 2018)						A\$	0.022				
Profit and Loss (A\$m)						Interim (A\$m)						H117A	H217A	H118F	H218F	H119F	H219F
Y/E 30 June	FY16A	FY17A	FY18F	FY19F	FY20F	Revenue	EBITDA	EBIT	NPAT (normalised)	Minorities	NPAT (reported)	EPS (normalised)	EPS (reported)	Dividend (cps)	Imputation	Operating cash flow	Free Cash flow
Revenue	3.2	2.8	3.0	5.8	8.8	- 1.3	- 1.7	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
EBITDA	(0.4)	(3.1)	(2.6)	(1.4)	0.3	- 1.3	- 1.7	- 1.7	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Deprn	(0.3)	(0.3)	(0.0)	(0.0)	(0.0)	- 1.5	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Amort	0.0	0.0	(0.4)	(0.4)	(0.3)	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
EBIT	(2.4)	(3.4)	(3.0)	(1.8)	(0.0)	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Interest	(0.1)	(0.0)	(0.0)	0.1	0.1	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Tax	0.0	(0.0)	0.0	0.5	(0.0)	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Minorities	0.0	0.0	0.0	0.0	0.0	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
NPAT pre significant items	(2.5)	(3.5)	(2.7)	(1.2)	0.1	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Significant items	0.0	0.0	0.0	0.0	0.0	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
NPAT (reported)	(2.5)	(3.5)	(2.7)	(1.2)	0.1	- 1.6	- 1.9	- 1.9	- 1.9	-	- 1.6	- 0.27	- 0.27	-	30.0	- 1.6	- 1.5
Cash flow (A\$m)						Share price chart											
Y/E 30 June	FY16A	FY17A	FY18F	FY19F	FY20F												
Receipts less exp	(0.4)	(3.1)	(3.0)	(1.3)	0.2												
Interest	(0.1)	(0.0)	0.0	0.1	0.1												
Tax	0.0	0.0	0.0	0.0	(0.1)												
Working capital changes	0.5	0.3	0.3	0.2	0.2												
Operating cash flow	(0.0)	(2.8)	(2.7)	(1.0)	0.4												
Mtce capex	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)												
Free cash flow	(0.1)	(2.9)	(2.8)	(1.1)	0.3												
Growth capex	0.0	0.0	(0.0)	(0.0)	(0.0)												
Acquisitions/Disposals	(0.4)	(0.5)	(0.5)	0.0	0.0												
Other	0.0	0.0	0.0	0.0	0.0												
Cash flow pre financing	(0.5)	(3.4)	(3.3)	(1.2)	0.3												
Equity	4.2	1.5	4.2	5.0	0.0												
Debt	0.5	(0.6)	0.0	0.0	0.0												
Dividends paid	0.0	0.0	0.0	0.0	0.0												
Net cash flow for year	4.1	(2.5)	0.9	3.8	0.3												
Balance sheet (A\$m)						Margins, Leverage, Returns											
Y/E 30 June	FY16A	FY17A	FY18F	FY19F	FY20F	EBITDA	EBIT	NPAT pre significant items	Net Debt (Cash)	Net debt/EBITDA (x)	ND/ND+Equity (%)	EBIT interest cover (x)	ROA	ROE	ROIC	NTA (per share)	Working capital
Cash	4.2	1.4	2.2	6.0	6.3	-13.3%	-75.9%	-78.9%	3.2	(x)	(%)	(x)	-39.4%	-77%	-7298%	0.14	-12%
Accounts receivable	0.4	0.3	0.6	0.5	0.8	-111.2%	-123.9%	-126.2%	1.2	n/a	n/a	n/a	-71.1%	-135%	-409%	0.00	-4%
Inventory	0.0	0.0	0.0	0.0	0.0	-85.8%	-99.1%	-90.0%	2.0	n/a	n/a	n/a	-67.7%	-103%	256%	0.00	6%
Other current assets	0.0	0.0	0.0	0.0	0.0	-24.0%	-30.6%	-20.5%	5.9	n/a	n/a	n/a	-23.9%	-22%	-1374%	0.01	-2%
Total current assets	4.7	1.7	2.8	6.6	7.1	3.5%	-0.2%	0.8%	6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
PPE	0.1	0.2	0.2	0.3	0.4				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Intangibles	1.3	1.2	1.9	1.5	1.2				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Investments	0.0	0.0	0.4	0.4	0.4				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Deferred tax asset	0.0	0.0	0.0	0.5	0.5				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Loan receivables	0.0	0.5	0.0	0.0	0.0				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Total non current assets	1.4	1.8	2.6	2.8	2.7				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Total Assets	6.1	3.5	5.4	9.4	9.8				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Accounts payable	0.9	0.4	0.4	0.7	0.8				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Short term debt	0.9	0.2	0.1	0.1	0.1				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Tax payable	0.1	0.0	0.0	0.0	0.0				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Other current liabilities	0.9	1.0	1.4	1.3	1.5				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Total current liabilities	2.8	1.6	1.9	2.1	2.4				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Long term debt	0.0	0.0	0.1	0.1	0.1				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Other non current liabs	0.0	0.0	0.0	0.0	0.0				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Total long term liabilities	0.0	0.0	0.1	0.1	0.1				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Total Liabilities	2.8	1.6	2.0	2.2	2.5				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Net Assets	3.3	1.9	3.4	7.2	7.3				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Share capital	12.2	13.7	17.9	22.9	22.9				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Accumulated profits/losses	(9.0)	(12.5)	(15.2)	(16.4)	(16.3)				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Reserves	0.1	0.7	0.7	0.7	0.7				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Minorities	0.0	0.0	0.0	0.0	0.0				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
Total Shareholder funds	3.3	1.9	3.4	7.2	7.3				6.2	n/a	n/a	n/a	90%	1%	5%	0.01	0%
						EPS Reported						cps - 0.97 - 0.56 - 0.34 - 0.11 0.01					
						EPS Normalised/Diluted						cps - 0.97 - 0.56 - 0.34 - 0.12 0.01					
						EPS growth (norm/dil)						n/a n/a n/a -105%					
						DPS						cps - - - - -					
						DPS Growth						n/a n/a n/a n/a n/a					
						Dividend yield						0.0% 0.0% 0.0% 0.0% 0.0%					
						Dividend imputation						30 30 30 30 30					
						PE (x)						- - - - 336.5					
						PE market						15.2 15.2 15.2					
						Premium/(discount)						-100% 2114%					
						EV/EBITDA						6.9 - 4.6 - 6.8 - 12.6 73.6					
						FCF/Share						cps 0.5 -0.4 -0.3 -0.1 0.0					
						Price/FCF share						5 - 6 - 8 - 25 44.5					
						Free Cash flow Yield						21.7% -17.6% -12.0% -4.1% 2.2%					

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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Effective Date: 1st November 2018

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

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