

Spirit Technology Solutions Ltd

From B2C to B2B – the proof is in the integration

Spirit Technology Solutions Limited (ASX:ST1) is an information technology and telecommunication (IT&T) services company operating in Australia. Listed in 1999, Spirit has participated in the consolidation of the IT&T sector, acquiring 13 companies since 2018. The largest and most transformative is the purchase of Nextgen in April 2021 for a maximum \$50m in cash and shares. The acquisition added more than 5,500 Data & Voice customers and more than 100 team members to Spirit's business and in one step moved the company far closer to a B2B-focused business. Spirit's retail-focused businesses were announced for sale in March 2021. Principal activities now include telecommunication services, cloud services, managed IT services and cyber security services to SME and large businesses. Spirit has made a range of placements and other capital issues to fund these transactions with shares on issue rising from 184m in 2017 to 652m currently. The last placement in April 2021 raised \$23.8m at \$0.33/share. The Nexgen acquisition assisted in moving ST1 into profit for the year and enabled revenue to jump from \$34m FY20 to \$103m in FY21.

Business model

Spirit is in the process of transforming into a provider of business grade IT&T services and has successfully integrated 10 of the 13 acquisitions since 2018 to deliver a full range of services. ST1 is targeting larger services contracts in the mid-size and corporate level markets. Focus for FY22 will be integration of the three recent acquisitions, using cross-selling to the expanded customer base to win larger and more complex services contracts with bundled products from ST1's expanded product suite. The business overall has been a beneficiary of COVID related demand changes and has not utilised the government's Jobkeeper program despite disruption related to lockdowns.

FY2021 sets the scene for growth in B2B IT&T Services

ST1 has successfully managed the change in strategic direction by utilising the currency of listed equity to fill the gaps in the services and product offer to larger businesses. The company now has the challenge of operating this business and consolidating the larger base profitably.

Growing fast but now must consolidate and operate

ST1 has amassed a range of businesses in a manner reminiscent of other businesses in the sector. The integration process is frequently complex and the challenge of achieving cost synergies has frequently been too great in the short term. The challenge of cross-selling has also often been extremely difficult in a rapidly changing marketplace while managing the consolidation of internal systems. Spirit is competing with much larger companies, both listed and unlisted, which are trying to achieve the same goals with greater and lesser degrees of success. Delivery of further sales and EPS growth is crucial in FY2022. The acquisition of NexGen has positioned the company well to set about securing growth.

Historical earnings and ratios (A\$m)

Year end	Revenue	EBITDA Adj.*	NPAT Adj.*	NPAT Rep.	EPS Adj.*(c)	EPS Rep.	EV/Sales	EV/EBITDA
06/18a	16.2	2.8	0.6	0.6	0.09	0.09	9.9	59.3
06/19a	17.4	1.4	(0.8)	(0.8)	(0.13)	(0.13)	9.7	122.1
06/20a	34.4	2.8	(1.5)	(1.5)	(0.23)	(0.23)	4.9	60.6
06/21a	102.8	8.6	1.2	1.2	0.18	0.18	1.6	19.5

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

Telecommunications Services

10th September 2021

Share details

ASX Code	ST1
Share price	\$0.245
Market Capitalisation	\$159.8M
Shares on issue	652.3M
Net debt at 30/06/2021	\$0.2M
Free float	37.3%

Share performance (12 months)



Upside Case

- Strong IT&T demand as the economy goes fully digital
- Successful integration of Nextgen systems
- Success in product cross-sell to existing customers

Downside Case

- Momentum of digital change slows due to cost and complexity
- Integration hurdles prove more complex
- Product offer not compelling for cross-sell

Catalysts/upcoming events

- AGM October 2021
- Interim results FY22 February 2022

Comparable companies (Aust/NZ)

Telstra Corp (ASX:TLS), TPG Telecom (ASX:TPG), Macquarie Telecom (ASX:MAQ), Uniti Group (ASX:UWL), Aussie Broadband (ASX:ABB)

Top 5 shareholders*

Regal Funds Management	9.41%
Crazy Diamond P/L	8.43%
P.J. Diamond	7.97%
TIGA Trading P/L	5.70%
Joshart Investments	5.16%

*Source: Refinitiv Eikon

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FINANCIAL SERVICES GUIDE

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AFSL 456663

Effective Date: 6th May 2021



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

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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