

8common Limited (8CO)

Driving a new wave of growth in established, profitable software businesses

DIRECTORS

Grant McCarthy, Chairman
 Nic Lim, Managing Director
 Zoran Grujic, Executive Director
 Larry Gan, Non-Executive Director
 Adrian Bunter, Non-Executive Director

MARKET DATA

ASX Code: 8CO
 Current Price: \$0.19
 52 Week Share Price Range: \$0.145 - \$0.30
 Market Capitalisation**: \$10.3 million
 Enterprise Value**: \$10.0 million

**includes escrowed shares

FINANCIAL SUMMARY

\$'000	2013-14 (A) ¹	2014-15 (E)*	2015-16 (E)*
Revenue	2,925	3,100	4,200
EBITDA	984	500	1,500
Net Profit	680	150	1,000
EPS (c)	1.5	0.2	1.9
PER (x)	12.7	95.0	10.0
EV/EBITDA (x)	10.1	20.0	6.7

¹ FY 2014 is a notional aggregated result *Gordon Capital estimates

CAPITAL STRUCTURE

Shares on Issue (listed): 14.5 million
 Shares on Issue (escrowed): 39.5 million

MAJOR SHAREHOLDERS

8Capita Ltd 17.4%
 Zenyen Ltd 16.6%
 Nyap Liou Gan 7.8%

SENIOR ANALYST

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KEY POINTS

- 8common is a diversified software house focussed on enterprise level productivity enhancing solutions with a blue chip government and corporate client base.
- Has completed four acquisitions of established, profitable software businesses.
- Business model based on refreshing and updating the client experience, adding functionality and enhancements and driving customer acquisition as the pathway to renewed growth.
- Strong management team supported by shared services facilitate smooth integration of acquisitions, product enhancement and customer acquisition strategies.
- Major growth opportunities for launching the business solutions in Asia, leveraging established networks. Asian revenues growing strongly, off a low base, will be major performance driver over the next few years.
- Revenue and profit growth will accelerate as business solutions are relaunched. The operating margin is solid with considerable potential to widen.
- Strong earnings momentum heading into FY 2016; substantial growth anticipated.
- The company is generating positive operating cash flows and has announced a planned issue of up to \$1.2 million in 18 month convertible notes issued to a small group of sophisticated investors, including some Directors, in May 2015. These notes are convertible at the higher of \$0.26 or a 15% discount to VWAP at the time of conversion.

INVESTMENT PROPOSITION

Long term sustainable business underpinned by high quality income

8common is building a sustainable long term business with a diversified portfolio of established enterprise level productivity enhancing solutions. It has a significant competitive advantage over many recent software/ technology business listings on the ASX that have narrow product offerings, very limited operating history and very high growth expectations. Nonetheless, 8common is valued at a substantial discount to its peer group.

Organic growth and acquisition strategies...

The valuation is undemanding and backed by well-established, solid businesses with blue chip clients in Australia and North America.

...will drive investor interest

We expect investor interest in 8common to build, and its valuation to rise, as the company's post-acquisition strategies deliver new momentum in revenue and profit growth, as the client base builds in Asia and as further acquisitions are undertaken to bulk up the group.

BUSINESS OVERVIEW

Driving a new phase of growth in established businesses

8common is emerging as a diversified software house focussed on enterprise level productivity enhancing solutions. The company's strategy is to acquire profitable, established businesses with potential for accelerated growth. Ideal targets are relatively small businesses with strong client bases with limited sales and marketing capabilities. The software platform will be underpinned by a strong engine but the front end and user experience may be tired and in need of refreshing and upgrading.

8common's business model is based on using shared services such as product engineering, design, marketing and business development to reinvigorate relatively small, but established, profitable, well positioned software businesses. 8common's objective is to drive a second wave of growth from a solid base of relatively secure income from stable, high quality client bases.

Adding value through core corporate capabilities in software engineering and sales and marketing

The company's core capability lies in software engineering and is supported by shared corporate resources in Sydney, Kuala Lumpur (Malaysia) and Manila (Philippines). A broadly based sales and marketing capability is currently being established to develop both domestic /home market opportunities for its solutions as well as global opportunities, especially leveraging management's network links in Asia.

Whilst the company is pursuing growth oriented strategies, the businesses it acquires typically have low customer churn and very sticky revenue bases mitigating both acquisition and growth risks. Accordingly, the profit streams are relatively stable and annuity like.

8common is also driving business model change and innovation in the acquired businesses. Revenues are currently a mix of traditional installation, annual renewal/maintenance, licence and customisation fees and new age Software as a Service (SaaS) fees. SaaS revenues are 75% of total revenues and are growing at a much faster rate than traditional revenues as new and established clients switch to the SaaS model and as businesses already using the SaaS model are acquired.

Has successfully acquired four businesses

8common has successfully acquired and absorbed four established businesses in disparate market sectors, and is expected to make further acquisitions over the next year with a view to broadening the overall product offering and bulking up the revenue and profit base of the group.

realtors8, a Canadian based content management and customer management system for

realtors8 has a sizable share of the Canadian realtor market

real estate agents, comprises 2 businesses acquired in April 2013 (Ubertor) and May 2015 (RealPageMaker/Clicksold). These SaaS only systems provide personalised, customer branded web-sites, integrated to multiple listing services, syndication and marketing tools which enable the realtors to generate traffic, leads and maintain relationships with their clients. With over 3,000 realtor clients, realtors8 holds a sizeable share of the active Canadian realtor market and generates close to A\$1 million annual revenue. The real estate agency market in Asia is comparable with the Canadian experience and is a major growth opportunity. realtors8 has recently been launched in Asia and new clients have been secured in Malaysia and Singapore.

expense8 has built a strong business against international competition

expense8, an Australian based enterprise level expense management system, was acquired in March 2014. With about 70, predominantly, blue chip clients such as the ATO, NSW Transport Cluster, NSW Police, Woolworths, and AMP (worldwide) it is the company's largest business unit, with annual revenue approaching \$2 million. This is a sophisticated platform which streamlines the end-to-end processing of employee generated expenses.

perform8 is a global leader in a niche market

The Centre for Organisational Innovation was acquired in December 2014. Now known as perform8, the business designs and conducts online employee surveys. The SaaS solution is designed to measure employee engagement as well as all the drivers that maximise employee productivity. It has a blue chip client base of large Australian corporates, government agencies and multinational companies including 7-Eleven, BMW, Wesfarmers, iiNet, Sydney Airport, Fairfax Media, Suncorp, and UBS (New York).

LATEST PROFIT RESULT AND EARNINGS OUTLOOK

First half loss due to seasonal factors

8common reported an after tax loss of \$300K for the six months ended 31 December 2014 from revenue of \$1.2 million. As the company was incorporated in February 2014 no comparable numbers were provided. However, the company commented that the loss was primarily attributable to the seasonal variation in revenue from expense8 whilst additional costs were incurred due to the IPO.

Strong full year profit growth expected

The June half 2015 results will include six months contribution from perform8. We expect FY 2015 revenue to be about \$3.1 million, 6% higher than the previous year but with IPO and acquisition costs and much higher amortisation charges, net profit is expected to fall to about \$150K from \$680K in the prior year.

Earnings momentum will be restored in FY 2016 with the benefit of full year contributions from perform8 and RealPageMaker/Clicksold. Coupled with the absence of IPO and acquisition costs, **FY 2016 revenue is anticipated to reach \$4.2 million, about 35% higher than FY 2015 with net profit of about \$1.0 million.**

BUSINESS DRIVERS AND GROWTH PROFILE

Cloud computing has transformed the market for software

Cloud computing has transformed the distribution and support of software systems over the past few years enabling the development of new business models based on SaaS (Software as a Service). Cloud computing involves the use of remote servers and networks that allow centralized data storage and online access to computer services or resources. In contrast, traditional enterprise level computing requires all software and services to be installed on and delivered from local servers and PCs. Key differences in the business models are apparent at all levels including distribution, installation, training, maintenance and upgrades. Further, almost any business with competitive, value-adding solutions can more easily build

and support a global customer base.

8common's product portfolio is leveraged the SaaS business framework

Against this background, 8common is building a portfolio of business solutions that can capitalise on the advantages of the SaaS framework to accelerate their growth by pursuing opportunities in new markets, especially in Asia. realtors8 and perform8 are SaaS only models whilst expense8 is now offered as a SaaS option to the enterprise hosted model.

8common's growth over the next few years will be driven by a combination of acquisitions and solution specific customer acquisition strategies focussed on existing markets and new geographies, particularly in Asia.

Growth will be both organic and acquisition driven

The company's four acquisitions demonstrate an agnosticism regarding size, market penetration or market positioning of its targets. realtors8 is a market leader in a clearly defined market sector; expense8 holds a small share in a relatively large market dominated by a few global suppliers and has done well to expand into 7 other countries; perform8 is a market leader in a highly specialised market niche. Nonetheless each business has established strong, stable positions as platforms for growth, especially into Asia ; realtors8 through market share; and expense8 and perform8 with more than 100 blue chip, government and corporate clients.

8common typically targets very small businesses that have reached the capacity of their internal financial and staffing resources relatively early in their life cycle. Sales and marketing, in particular, is usually managed and driven by the business owner with little if any support. Moreover, maintaining competitiveness is often a challenge.

Future acquisitions are expected to be bolt-ons to existing businesses which can deliver significant synergies or will fit similar profiles to the businesses that have already been acquired. They will provide quantum leaps in scale enabling the company to more rapidly bulk up and to amortise corporate overheads and shared resources over a larger revenue base. Notionally, acquisitions will also provide opportunities for cross selling but we think this is a low priority.

Value adding through product refreshment and relaunch

8common' strategy is to refresh and update the user experience and add new features leading to a relaunch of each product. Customer churn is typically low but new update versions attract new users and often improved pricing structures. This is facilitated by the SaaS framework where new model structures are easily tested and implemented.

and new customer acquisition strategies

Alliances, partnerships and new distribution channels are also being developed to drive growth. For example, a travel online booking tool has been added to expense8 which has enabled the product to be integrated into the global amadeus and Airplus International travel booking and payments systems and is expected to be integrated with the Helloworld system which holds the whole of government (commonwealth) travel contract.

to drive a new phase of growth

The management team has been strengthened with the appointment of a COO, CTO and a Head of Sales who will develop and manage sales strategies and teams for the various product solutions with a view to building new sales momentum and organic growth to over 10% pa. Asian market development is being driven by 8common's Malaysia based CEO, Nic Lim who has established networks in the region.

Asia, particularly Singapore, Malaysia, Indonesia and Thailand are attractive markets for the company as rapidly growing local businesses are increasing tapping into established western management systems to support their growth.

FINANCIAL SUMMARY

INCOME STATEMENT			
(\$'000)	FY 13*	FY 14*	HY 15
Revenue	2,871	2,925	1,233
EBITDA	981	984	485
Deprn, & Amort	(20)	(77)	(193)
Other Costs**	-	(228)	-
Pre Tax Profit	961	679	(292)
Tax			(8)
Net Profit	NA	NA	(300)

*This data is an aggregate of the company's parts rather than a formal consolidated result

**Other costs include IPO related costs, pre-IPO acquisition costs and head office costs.

BALANCE SHEET		
(\$'000)	June 2014	Dec 2014
Current Assets		
Cash & Equivalents	356	1,475
Receivables	625	423
Other	241	117
	1,222	2,015
Non-Current Assets		
Plant & Equipment	27	29
Intangibles	5,582	5,614
Other	35	84
Total Assets	6,866	7,742
Current Liabilities		
Payables	825	866
Other	2,188	476
	3,013	1,342
Non-Current Liabilities	457	332
Shareholders' Equity	3,395	6,068
Liabilities & Equity	6,866	7,742

CASH FLOW	
(\$'000)	HY 14
Net Cash Flow From Operations	65
Net Cash Flow From Investing	(55)
Net cash Flow From Financing	1,098
Net Change In Cash	1,108

Review and Financial Outlook:

As 8common was incorporated in early 2014, only limited historical financial data is available. Nonetheless, notionally aggregated data of the various components that now comprise the company does provide some insight.

Although there was limited apparent revenue or profit growth in FY 2014, underlying margins appear to be quite healthy at around 33%.

The balance sheet is not unusual for a software/technology company with relatively little in the way of tangible assets, other than working capital. Accordingly, intangibles, such as goodwill and intellectual property, represent a substantial proportion of the asset base and shareholders' equity. As intellectual property will underpin most acquisitions, intangibles will always be a substantial, if not the largest component of the company's asset base. Further, the amortisation of intangibles will be a significant charge against annual operating profit.

Whilst the company held no external debt as at 31 December 2014, deferred consideration for acquisitions was a relatively significant liability.

In May 2015, the company plans to raise upto \$1.2million from a small number of sophisticated investors (including some Directors) through the issue of relatively short dated (18 months) convertible notes.

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