

## 8common Limited (8CO)

### Major client win with significant profit impact

#### 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: \$0.24  
 52 Week Share Price Range: \$0.14 - \$0.30  
 Market Capitalisation\*\*: \$13.0 million  
 Enterprise Value\*\*: \$11.6 million

\*\*includes escrowed shares

#### FINANCIAL SUMMARY

\$'000	2013-14 (A) <sup>1</sup>	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)	16.0	120.0	12.6
EV/EBITDA (x)	11.8	23.2	7.7

<sup>1</sup> FY 2014 is a notional aggregated result \*Gordon Capital estimates

#### CAPITAL STRUCTURE

Shares on Issue (listed): 16.8 million  
 Shares on Issue (escrowed): 37.2 million

#### MAJOR SHAREHOLDERS

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

#### SENIOR ANALYST

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#### KEY POINTS

- Secures NSW Department of Education and Communities as a client after the competitive tender process.
- Potential to reach 10,000 users
- Revenue generated will rise strongly as user base increases.
- Significant impact on revenue and profit in FY 2016.

#### INVESTMENT PROPOSITION

8common is building a sustainable long term business with a diversified portfolio of established enterprise level productivity and performance enhancing solutions. It has a strong growth profile built around adding value, via a number of strategies, to its business units. The valuation is undemanding and backed by well-established, solid businesses with blue chip clients in Australia and North America.

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.

## EVENT

8common subsidiary, Business Information Systems (BIS) will deliver the Expense8 EMS solution on a Software as a Service (SaaS) basis to support the New South Wales Department of Education and Communities (DEC) Purchasing Card Solution.

Expense8 is expected to be used by up to 10,000 card holders at the DEC head office and across all schools in New South Wales. The initial contract is for a period of 3 years with provisions for extension for another 2 years. The DEC win, one of the largest clients of Expense8, is expected to have a significant impact on future profits of 8common with revenues commencing in late FY15.

## ANALYSIS

This is the first major client win for expense8 since it was acquired by 8common in early 2014 and comes shortly after the re-launch of the product following a major upgrade. DEC is certainly one of the company's largest clients and further extends its coverage amongst government agencies where it has a strong presence at both Federal and State levels.

Despite its relatively small size, expense8 has an impressive client base that strongly points to a capability to "punch above its weight". With forecast FY 2015 revenues of about \$1.7 million and only about 70 clients, expense8 has a relatively modest market presence compared with its main competitor, US based and recently SAP acquired Concur. Nonetheless, the securing of this large contract with DEC confirms that its value proposition is highly competitive.

Since acquiring expense8 in early 2014, 8common has rebuilt the user interface and added functionality to an already strong underlying software engine. New sales activity ground to a halt through this process. The upgrade has recently been relaunched and marketing is now being scaled up. Accordingly, we expect new sales activity to gather momentum over the next year. There is also considerable potential to grow revenues by moving deeper into the global reach of its clients. The AMP has rolled out expense8 in multiple markets and we believe other clients are assessing the feasibility of doing likewise. There are also strong sales opportunities in Asia where local concerns regarding data security with US based organisations (The US legislated Patriot Act) create a competitive advantage for an Australian company.

Being cloud based, expense8 is easily scalable and implementation, training and other costs are quiet low. Margins are high.

Although the company declined to provide any earnings guidance regarding the impact of this contract, with a potential base of 10,000 users, we estimate that revenue could exceed \$200K per annum at this level, based on a cost per user of about \$2 per month. We assume it will take some time to reach this level and anticipate that FY 2016 revenue may be in the order of \$100K including some revenue from implementation and other services. With little in the way of additional costs, the profit impact will be quite significant, especially as user and transaction volumes increase.

Whilst most new client wins will be considerably smaller than DEC, this win does demonstrate that considerable growth will be generated as new sales gathers momentum.

## BUSINESS OVERVIEW

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.

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.

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 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 over 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, 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 of about \$1.7 million. This is a sophisticated platform which streamlines the end-to-end processing of employee generated expenses.

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, and Sydney Airport.

## **BUSINESS DRIVERS AND GROWTH PROFILE**

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.

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.

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.

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.

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.

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.

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