

8common Limited (8CO)

June Quarter Update

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) 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)	16.0	120.0	12.6
EV/EBITDA (x)	11.8	23.2	7.7

¹ 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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 August 2015

KEY POINTS

- June quarter typically strong due to high level of billings
- Major customer win for Expense8
- Acquisition of RPM and Clicksold in Canada completed
- \$900K raised via a Convertible Note
- Cash balance of \$565K as at 30 June 2015

INVESTMENT PROPOSITION

8common is building a sustainable long term business with a diversified portfolio of established enterprise level performance and 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.

The valuation is undemanding and backed by well-established, solid businesses with blue chip clients in Australia and North America. The management team has been filled out since IPO which will strengthen the identify-acquire-grow process adopted by 8common.

The recent Department of Education tender win was significant from both a financial and strategic perspective. In addition to the significant positive impact on financial performance it clearly demonstrates the ability of the company to deliver a refreshed product, which successfully competed with and won over other competitors.

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 reported the following highlights regarding the June 2015 quarter.

- Expense8 won a competitive tender to deliver its Expense Management Solution (EMS) to the NSW Department of Education and Communities (DEC)
- Realtors8 completed its acquisition of RPM and Clicksold
- Realtors8 on like for like basis (omitting the RPM and Clicksold) grew 21% from Q1 to Q4 of 2015
- Perform8 brings new clients like 7-Eleven, Brother, Chobani and the Department of Defence to the group
- \$900K raised via a Convertible Note to finance the acquisition of RPM and Clicksold
- Quarterly cash flow performance very strong with customer receipts of \$1.273 million
- Full year customer receipts were \$3.21 million
- Asian market push begins with first revenues received

The cash balance as at 30 June 2015 was \$565K. There was no debt.

ANALYSIS

The final quarter of the fiscal year is the company's strongest as most of the billing for Expense8 occurs during this period. Nonetheless, the cash flow report and the accompanying comments from management point to very strong underlying growth which will carry through into FY 2016.

There was considerable corporate activity undertaken in FY 2015 as the company continued to develop its business model. Key events which demonstrated its capabilities were the relaunch of Expense 8 after a major upgrade and the subsequent win, by competitive tender, of the DEC in NSW against much larger competition.

The acquisition during the year of The Centre for Organisational Innovation (now known as **perform8**) and RPM and Clicksold in Canada were important in broadening the overall offering of performance and productivity enhancing solutions (perform8) and bulking-up the Canadian business. These acquisitions have provided new avenues of growth.

Whilst the Canada based Realtors8 will be well placed following recent acquisitions, Realtors8 underlying growth through the year of 21% is impressive and sets a solid foundation for a very positive experience in the current year.

Winning the DEC contract was an important highlight for Expense8 which will have a major financial impact in FY 2016 and FY 2017 as the number of users builds towards 10,000. We understand that there is a large and growing pipeline of interest in Australia and Asia in Expense8 and major accounts are expected to be secured from blue chip regional and global organisations over the next year which will ensure that revenue growth is well into double digits in FY 2016. Further, existing clients continue to broaden their use of Expense8 as they introduce expense and travel management system more widely through their organisations, and in some cases internationally.

Perform8 was also acquired during the year. Although a relatively small, niche product business it brings to the group a global presence and a very high quality client base with the potential for cross-selling opportunities. The core product is currently being upgraded and due for relaunch towards the end of the calendar year and expected to drive accelerated growth into 2016.

8common will report its FY 2015 results at the end of August. As the company was incorporated in early 2014, there won't be any meaningful comparative data. Nonetheless, in comparing the prior year on a sum of the parts basis (aggregating the various acquisitions) reported profit will be much lower due to IPO and business acquisition costs, higher depreciation and amortisation charges and higher product development costs associated with the relaunch of expense8. Many of these costs were one-off or project related and confined to FY 2015. Accordingly, ***a much stronger result is anticipated in FY 2016 as the company gains the benefit of recent acquisitions, the relaunch of Expense8 and new customer acquisitions. In particular, revenue is expected to increase by about 35% and EBITDA is expected to triple***

BUSINESS OVERVIEW

8common is emerging as a diversified software house focussed on enterprise level performance and 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 and 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.

8common has successfully acquired and absorbed four established businesses in disparate market sectors, and is expected to make further acquisitions 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 April 2015 (RealPageMaker/Clicksold). These SaaS only systems provide personalised, customer branded web-sites, integrated with 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 about A\$1.8 million annual revenue. The real estate agency market in Asia is comparable with the Canadian experience, where realtors are mostly sole operators, 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 predominantly blue chip clients such as the ATO, NSW Transport Cluster, NSW Police, NSW Department of Education & Communities, Woolworths, and AMP with annual revenue of about \$1.7 million. This is a sophisticated platform which end-to-end tracking, authorisation and payment of employee generated expenses. It interfaces with credit card payment systems (Visa and Mastercard) and ERP systems such as Oracle and SAP. Following the launch of an online travel booking tool, it also interfaces with the global amadeus and Airplus International travel booking and payments systems.

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, Sydney Airport and Brother

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.

8comon's growth platform encompasses several strategies including:

- Customer acquisition in core markets
- Bolt on product development
- New market development, especially in Asia and
- Acquisitions

Over the past two years, the company has primarily focussed on acquisitions in building its corporate structure and to provide the basic foundation for growth. The strategy post-acquisition is to apply software engineering to improve the customer interface and to add functional enhancements ahead of a relaunch with beefed up marketing and business development capabilities.

Whilst the core market for each of the company's products is usually well established and competitive there remains significant opportunities to drive solid growth. There are typically opportunities to extend the reach of the product within a client organisation (where the product may be used in some but not all divisions and maybe some geographies but not all) as well as new opportunities from enterprises and government agencies still using

relatively primitive methods for expense management such as excel spreadsheets (apparently remarkably common). The company recently announced that it had secured the NSW Department of Education and Communities, with potentially up to 10,000 individual users.

Bolt on product development which leverages the core product, offers considerable potential to add to growth. Two products that leverage off expense8 are under development and in due course other bolt-ons will be developed for the other products.

Accelerated growth will, however, be driven by expansion into new markets, primarily Asia where management has strong network links and where local businesses are increasingly seeking to add more sophistication to their own operations. Competition in Asia is also at a relatively low level compared with North America and Australia, whilst local enterprises and governments have an aversion to US products due to concerns regarding data security (US Patriot Act).

The key success factor in accelerating growth lies in building corporate and divisional marketing and business development capabilities and implementing effective customer acquisition strategies. To this end, a Head of Sales has been appointed who will have global responsibility for building these structures and developing the strategies. As a first step, sales and distribution channels are being sourced in Asia to scale up marketing for expense8 and realtors8.

Further, implementing and integrating acquisitions is a core capability of the company. Four acquisitions have been completed and it is likely further acquisitions will be undertaken over the next few years. Whilst the company targets established, profitable software businesses, they are typically small. So even with four profitable businesses with good growth prospects, group revenues in FY 2016 will still be relatively low at about \$4 million. Whilst revenue is capable of doubling over the next four or five years, acquisitions will be important in bulking up the group and providing scale necessary for the company to maximise the potential of its suite of enterprise productivity solutions.

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