

# 8common Limited

## Major contract win widens competitive moat

Yesterday evening 8common announced that its Expense8 software has been selected as the exclusive expense management module for the Australian Government. This is a validation of the company's offering and a barrier to competitors entering its markets. We estimate the deal could add up to \$7m of incremental recurring revenue to the \$2.5m of group SaaS revenue reported in FY21. We are upgrading our forecasts and our fair value rises by 10% to 55c per share (>400% upside).

- **A major validation of the offering:** Expense8 has won the tender for GovERP which is the project to standardise software across all Australian Government departments. This means all shared-service agencies (with c130k users) will transition to Expense8, likely over the next three to four years, and other agencies (with c20k users) having the choice to opt in. This is a major validation of 8common's unique ability to customise software for client requirements especially relating to security and integration. A term of the deal is that 8common software moves up a security tier from "official" to "protected" status putting it in an elite group of providers including TechnologyOne ([link](#)).
- **Potential to nearly double the number of users across the group:** Expense8 reported 166k total users in FY21. The Australian government has c150k potential users of which c19k already use Expense8. If all transition to the system we estimate this would give an incremental SaaS revenue of \$7m versus FY21 levels and \$5.5m versus our prior FY24 forecasts. Government ARPU was \$53 pre-COVID.
- **Upgrading our EBITDA forecasts by 31-85% FY22-FY24:** We forecast that 8Common will have 100k Australian Government users by FY24 versus 50k prior. Our forecasts for Expense8 SaaS revenue rise by \$2.8m to \$7.2m in FY24 and implementation revenue rise by \$0.9m per year FY22 to FY24. We are also increasing capex and operating cost forecasts by \$2m and \$1m respectively on developments to meet specifications.
- **Upgrading our fair value by 10% to 55c per share:** Our DCF derived fair value rises to 55c per share on the upgrades to our forecasts. Our fair value puts 8common on an EV/revenue multiple of 8.3x in FY23 versus 1.4x currently - a 28% discount to relevant peers trading on 11.6x.

Figure 1. Changes to Veritas forecasts for 8common (\$m)

Year ended June 30 (\$m)	FY21E			FY22E			FY23E			FY24E		
	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.
Revenue	3.9	3.6	-0.3	6.1	7.3	1.2	11.1	12.9	1.8	17.5	20.3	2.8
Growth (% YoY)	4.2	-4.2	-8.4	55.0	101.3	46.3	83.0	77.6	-5.4	57.4	57.3	-0.1
EBITDA	-0.5	-0.7	-0.2	0.5	0.9	0.4	2.8	3.7	0.9	5.5	7.2	1.7
Margin (%)	-11.7	-18.3	-6.6	8.2	12.6	4.5	25.4	28.8	3.4	31.5	35.5	4.0
Profit before tax	-0.8	-1.0	-0.2	0.1	0.5	0.4	2.1	3.0	0.9	4.5	6.2	1.7
Normalised dil. EPS (cps)	-0.4	-0.5	-0.1	0.0	0.2	0.2	0.8	1.1	0.3	1.6	2.2	0.6
Capex	0.2	0.7	0.5	0.3	2.3	2.0	1.3	2.3	1.0	2.3	2.3	0.0
Free Cash Flow	-0.3	-0.8	-0.5	0.3	-1.4	-1.7	1.4	1.1	-0.3	3.4	4.7	1.3

Source: Company data, Veritas research

8CO.ASX

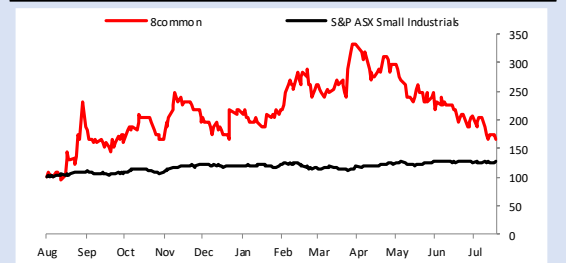
BUY

Friday 30 July 2021

Share Price	\$0.11
Price Target	\$0.55
Valuation Method	DCF
Market capitalisation	\$22.0m
Enterprise value	\$18.4m
GICS sector	Software and Services
12 month price range	\$0.06 - \$0.23
Shares in issue	200.4m
Top 20 holders	124.8m
Previous rating	Buy

Year ended June 30	FY20A	FY21E	FY22E	FY23E	FY24E
Revenue	\$m 3.8	3.6	7.3	12.9	20.3
Growth	% 8.2	-4.2	101.3	77.6	57.3
EBITDA	\$m (0.1)	(0.7)	0.9	3.7	7.2
Margin	% (2.5)	(18.3)	12.6	28.8	35.5
NPAT	\$m (0.4)	(0.9)	0.4	2.2	4.5
EPS	cps (0.2)	(0.5)	0.2	1.1	2.2
CFPS	cps (0.1)	(0.0)	0.5	1.7	3.0
PER	x N/A	N/A	60.1	10.2	4.9
Price/Cash Flow	x N/A	N/A	24.4	6.5	3.7
EV/Revenue	x 4.9	5.1	2.5	1.4	0.9
EV/EBITDA	x N/A	N/A	20.1	5.0	2.6
EV/EBIT	x N/A	N/A	36.4	6.1	3.0
EV/Capital	x 6.6	8.6	4.7	3.7	3.2
Net debt/(cash): capital	% (54)	(130)	(35)	(49)	(105)
Fixed charge cover	x N/A	N/A	N/A	N/A	N/A
Return on capital	% (9.9)	(38.5)	12.1	48.5	82.6

8common vs. Small Industrials Index



Source: Factset, Veritas Securities Limited

8common's products include Expense8 and CardHero. Expense8 is a cloud-based expense management software for enterprises. CardHero is a client administered payment card solution which provides superior control over spending than corporate credit cards. Major customers include the State and Federal Governments of Australia and Australian companies such as Woolworths Limited and Amcor.

<https://www.8common.com>

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**8common Limited**

Share Price: **\$0.11 ps**

Valuation: **\$0.55 ps**

Financial Performance (A\$m)						
Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>3.5</b>	<b>3.8</b>	<b>3.6</b>	<b>7.3</b>	<b>12.9</b>	<b>20.3</b>
Cost of goods	(1.1)	(0.6)	(0.6)	(1.7)	(3.8)	(6.7)
<b>Gross profit</b>	<b>2.4</b>	<b>3.2</b>	<b>3.0</b>	<b>5.5</b>	<b>9.1</b>	<b>13.6</b>
Grants & other income	0.2	0.4	0.1	0.0	0.0	0.0
Operating costs	(3.3)	(3.7)	(3.7)	(4.6)	(5.4)	(6.4)
<b>Normalised EBITDA</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>0.9</b>	<b>3.7</b>	<b>7.2</b>
Depreciation and amortisation	(0.7)	(0.3)	(0.3)	(0.4)	(0.7)	(1.0)
<b>Normalised EBIT</b>	<b>(1.4)</b>	<b>(0.4)</b>	<b>(1.0)</b>	<b>0.5</b>	<b>3.0</b>	<b>6.2</b>
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.0)	0.0	0.0	0.0	0.0	0.0
<b>Normalised Pre-tax Profit</b>	<b>(1.4)</b>	<b>(0.4)</b>	<b>(1.0)</b>	<b>0.5</b>	<b>3.0</b>	<b>6.2</b>
Normalised tax	0.0	(0.0)	0.1	(0.1)	(0.8)	(1.7)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Normalised profit to holders</b>	<b>(1.4)</b>	<b>(0.4)</b>	<b>(0.9)</b>	<b>0.4</b>	<b>2.2</b>	<b>4.5</b>
One off items (post-tax)	0.0	(0.4)	0.4	0.0	0.0	0.0
<b>Reported profit to holders</b>	<b>(1.4)</b>	<b>(0.8)</b>	<b>(0.5)</b>	<b>0.4</b>	<b>2.2</b>	<b>4.5</b>

Cash Flow Statement (A\$m)						
Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>Normalised EBITDA</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>0.9</b>	<b>3.7</b>	<b>7.2</b>
Cash net interest	(0.0)	0.0	0.0	0.0	0.0	0.0
Cash tax (paid)/received	0.0	(0.0)	0.0	(0.1)	(0.8)	(1.7)
Working capital/other	0.5	(0.1)	0.5	0.1	0.5	0.5
<b>Operating Cash Flow</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>0.9</b>	<b>3.4</b>	<b>6.0</b>
Capex	0.0	(0.0)	(0.7)	(2.3)	(2.3)	(2.3)
Payments on finance leases	0.0	0.0	0.0	0.0	0.0	1.0
<b>Free Cash Flow</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(1.4)</b>	<b>1.1</b>	<b>4.7</b>
Disposals/Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	1.0
Equity raised/buybacks	0.0	1.0	2.3	0.0	0.0	0.0
Borrowings/(debt repayment)	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.0	(0.1)	0.0	0.0	(2.0)
<b>Net increase/(decrease) cash</b>	<b>0.5</b>	<b>0.8</b>	<b>1.4</b>	<b>(1.4)</b>	<b>1.1</b>	<b>3.7</b>
Cash at beginning	0.5	1.0	1.8	3.2	1.8	2.9
Cash at end (including bank deposits)	1.0	1.8	3.2	1.8	2.9	6.6

Balance Sheet (A\$m)						
Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>Current Assets</b>	<b>1.4</b>	<b>2.2</b>	<b>3.5</b>	<b>2.5</b>	<b>4.2</b>	<b>8.9</b>
Property, Plant & Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	2.1	1.8	2.2	4.1	5.7	7.0
Other non current assets	4.1	1.5	0.8	0.8	0.8	0.8
<b>Non Current Assets</b>	<b>6.1</b>	<b>3.2</b>	<b>3.1</b>	<b>5.0</b>	<b>6.6</b>	<b>7.9</b>
<b>Total Assets</b>	<b>7.5</b>	<b>5.4</b>	<b>6.6</b>	<b>7.4</b>	<b>10.8</b>	<b>16.7</b>
Payables	1.0	0.6	1.0	1.5	2.6	4.1
Current tax	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.5	0.2	0.3	0.3	0.3	0.3
Total debt	0.0	0.3	0.4	0.4	0.4	0.4
<b>Total Liabilities</b>	<b>1.5</b>	<b>1.1</b>	<b>1.6</b>	<b>2.1</b>	<b>3.3</b>	<b>4.8</b>
<b>Shareholder Funds</b>	<b>6.0</b>	<b>4.3</b>	<b>4.9</b>	<b>5.3</b>	<b>7.5</b>	<b>12.0</b>

Directors and Key Management Personnel				Shares	Holding
Kah Wui "Nic" Lim				26.5m	13.2%
Andrew Bond				0.0m	0.0%
Kok Fui Lau				17.2m	8.6%
Nyap Liou "Larry" Gan				14.4m	7.2%
Adrian Bunter				0.1m	0.0%
John Du Bois				0.3m	0.2%

Major Shareholders (excluding nominees)				Shares	Holding
Kah Wui "Nic" Lim				26.5m	13.2%
Kok Fui Lau				17.2m	8.6%
Nyap Liou "Larry" Gan				14.4m	7.2%
Maxwealth Capital Limited				9.9m	5.0%
<b>Top 20 shareholders</b>				<b>124.8m</b>	<b>62.3%</b>

Source: Company data, Veritas Research

Valuation Metrics		Valuation	
Price Target (ps)		\$0.55	403%
Share Price (ps)		\$0.11	
FY22E EV/Revenue (x)		2.5	
Implied FY22 EV/Revenue (x)		14.8	482%
Implied FY23 EV/Revenue (x)		8.3	228%
Market Capitalisation (A\$m)		22.0	
Enterprise Value (A\$m)		18.4	
Shares in Issue		200.4	

Valuation Multiples						
Year ended June	FY19	FY20	FY21E	FY22E	FY23E	FY24E
P/E (x)	N/A	N/A	N/A	60.1	10.2	4.9
Price/Cash Flow (x)	N/A	N/A	N/A	24.4	6.5	3.7
EV/Revenue (x)	5.3	4.9	5.1	2.5	1.4	0.9
EV/EBITDA (x)	N/A	N/A	N/A	20.1	5.0	2.6
EV/EBIT (x)	N/A	N/A	N/A	36.4	6.1	3.0
Equity FCF yield (%)	-0.6	-1.0	-3.5	-6.4	4.9	21.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	3.7	6.6	8.6	4.7	3.7	3.2
Price to book value (x)	2.6	4.2	4.3	4.2	2.9	1.8

Per Share Data						
Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>EPS diluted - adjusted (cps)</b>	<b>(0.95)</b>	<b>(0.25)</b>	<b>(0.45)</b>	<b>0.18</b>	<b>1.08</b>	<b>2.24</b>
EPS diluted (cps)	(0.95)	(0.25)	(0.45)	0.18	1.08	2.24
Cash flow per share (cps)	(0.09)	(0.12)	(0.04)	0.45	1.69	2.99
Free cash flow per share (cps)	(0.09)	(0.13)	(0.41)	(0.70)	0.53	2.34
Cash (cps)	0.72	1.10	1.67	0.90	1.43	3.27
Net assets (cps)	4.23	2.59	2.58	2.65	3.73	5.97
DPS (cps)	0.00	0.00	0.00	0.00	0.00	0.00
Franking (%)	0.00	0.00	0.00	0.00	0.00	0.00
Shares on issue - avg. basic (m)	143	167	192	200	200	200
Shares on issue - avg. diluted (m)	143	167	192	200	200	200

Segmental revenue						
Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Expense8 users avg. (k)	94.0	118.7	145.5	186.0	226.0	266.0
CardHero users avg. (k)	0.0	0.0	0.0	7.3	33.0	77.5
SaaS - Expense 8	1.9	2.5	2.5	3.7	5.2	7.2
SaaS - CardHero	0.0	0.0	0.0	0.9	4.0	9.3
Other recurring	0.1	0.1	0.0	0.0	0.0	0.0
Implementation - Expense8	1.4	1.2	1.0	2.4	2.4	2.4
Implementation - CardHero	0.0	0.0	0.2	0.3	1.3	1.4
<b>Revenue (\$m)</b>	<b>3.5</b>	<b>3.8</b>	<b>3.6</b>	<b>7.3</b>	<b>12.9</b>	<b>20.3</b>
SaaS - Expense 8	19.4	29.5	(0.2)	49.7	39.7	38.5
SaaS - CardHero					355.2	134.8
Implementation - Expense8	40.3	(17.3)	(18.6)	147.9	0.0	0.0
Implementation - CardHero				75.0	402.9	2.3
<b>Revenue growth (%)</b>	<b>31.7</b>	<b>8.2</b>	<b>(4.2)</b>	<b>101.3</b>	<b>77.6</b>	<b>57.3</b>

Performance Ratios (%)						
Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Gross margin	69.3	85.1	82.9	76.0	70.5	67.0
Operating cost margin	94.9	98.4	103.2	63.4	41.7	31.5
EBITDA margin	(19.0)	(2.5)	(18.3)	12.6	28.8	35.5
Gross profit growth	11	33	-7	85	65	50
Cost growth	28	12	1	24	17	19
EBITDA growth	N/A	N/A	N/A	N/A	304	94
Normalised EPS growth	N/A	N/A	N/A	N/A	492	106
Tax rate	1.3	-7.7	9.1	27.5	27.5	27.5
Return on invested capital	(26)	(10)	(39)	12	49	83

Balance Sheet Ratios						
Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>Balance Sheet (A\$m)</b>						
Gross debt (\$ m)	0.0	0.3	0.4	0.4	0.4	0.4
Net cash/(debt) (\$ m)	1.0	1.5	2.8	1.4	2.5	6.1
Gearing (net debt (cash): capital)	-21	-54	-130	-35	-49	-105
Fixed charge cover (x)	N/A	N/A	N/A	N/A	N/A	N/A

RATING

- BUY – anticipated stock return is greater than 10%
- SELL – anticipated stock return is less than -10%
- HOLD – anticipated stock return is between -10% and +10%
- SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

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