BELL POTTER

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Tech Sector

Updated key picks: UWL, IFM & PWH

Stock	Price	Target	Rating
ADA	$0.44	$0.75	Buy
ALU	$37.23	$35.00	Hold
APX	$30.28	$31.25	Hold
ARQ	$0.105	$0.10	Sell (Spec)
CAT	$1.40	$1.75	Hold
CGL	$2.94	$4.75	Buy
EVS	$0.16	$0.275	Buy (Spec)
IFM	$1.63	$2.00	Buy
IRI	$3.44	$3.50	Buy
OTW	$3.34	$3.50	Hold
PWH	$4.53	$5.00	Buy
TNE	$9.25	$9.50	Hold
UWL	$1.665	$2.15	Buy
WTC	$21.11	$17.50	Sell

Disclosure: Bell Potter Securities acted as lead manager of UWL's capital raisings in August and December 2019 and received fees for those services.

Bell Potter Securities Limited and its associates have a net long position of 0.5% or more of the issued capital of UWL.

Updated key picks: UWL, IFM & PWH

Our updated key picks in the tech sector following some material price movements and changes in our recommendations are:

- **Uniti Group (UWL)**: Moves up to our number one pick following the downgrade in recommendation to HOLD for our previous number one pick – Appen – and given we still see good value in Uniti with also the chance of an upgrade to FY20 guidance or at least a result at the upper end of the existing guidance range;
- **Infomedia (IFM)**: A new key pick following the recent upgrade in our recommendation to BUY given the underperformance of the stock relative to most large cap stocks, the limited downside risk we see to the FY20 guidance and also the likelihood that acquisitions will occur in the coming months; and
- **PWR Group (PWH)**: Another new key pick given the value we see in the stock – FY21 PE ratio of c.25x – and the potential of an unusually strong FY21 result with the traditionally weaker first half to be boosted by a greater number of races (e.g. F1) due to the late commencement of elite motorsports this year.

The key changes we have made to our key picks since we last updated them in late April are to remove Appen (APX) and Catapult Group (CAT) given the downgrade in recommendation for both to HOLD and to replace these with Infomedia and PWR Group. The only other notable change is Uniti has moved up from number two to our number one pick.

Updated key sells: WTC

Our updated key sells are now just WiseTech Group (WTC) given the ARQ Group (ARQ) share price is now around our valuation (though we still have a SELL (Speculative) recommendation on the stock). The SELL on WiseTech is based on valuation and our view the FY20 result will be towards the lower end of the revenue and EBITDA guidance ranges.

Figure 1 - PE ratios and EV/EBITDA multiples for tech stocks under coverage

Company	Ticker	Rec.	Share price at 02-Jun-20	Price target	Market cap	Year end	PE ratio FY20e/CY20e	PE ratio FY21e/CY21e	EV/EBITDA FY20e/CY20e	EV/EBITDA FY21e/CY21e
Adacel	ADA	Buy	$0.44	$0.75	$34m	Jun	22.5x	6.8x	7.4x	3.6x
Altium	ALU	Hold	$37.23	$35.00	$4,876m	Jun	64.9x	53.7x	41.0x	34.4x
Appen	APX	Hold	$30.28	$31.25	$3,684m	Dec	45.1x	35.2x	26.9x	21.1x
ARQ Group	ARQ	Sell (Spec)	$0.105	$0.10	$13m	Dec	NM	NM	10.1x	4.4x
Catapult Group Int'l	CAT	Hold	$1.40	$1.75	$267m	Jun	NM	NM	19.0x	11.4x
Citadel Group	CGL	Buy	$2.94	$4.75	$231m	Jun	15.2x	11.2x	7.7x	6.1x
Envirosuite	EVS	Buy (Spec)	$0.16	$0.275	$163m	Jun	NM	NM	NM	NM
Infomedia	IFM	Buy	$1.63	$2.00	$595m	Jun	28.3x	24.8x	12.3x	8.5x
Integrated Research	IRI	Buy	$3.44	$3.50	$591m	Jun	24.7x	22.1x	13.5x	11.9x
Over the Wire	OTW	Hold	$3.34	$3.50	$172m	Jun	33.1x	23.3x	10.2x	8.1x
PWR Group	PWH	Buy	$4.53	$5.00	$453m	Jun	37.5x	25.2x	19.0x	14.0x
Technology One	TNE	Hold	$9.25	$9.50	$2,948m	Sep	46.0x	40.4x	27.5x	22.9x
Uniti Group	UWL	Buy	$1.665	$2.15	$539m	Jun	30.8x	23.4x	20.2x	10.9x
WiseTech Global	WTC	Sell	$21.11	$17.50	$6,748m	Jun	136.8x	93.9x	54.8x	41.5x

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Key Picks

Uniti Group (BUY, PT $2.15)

Uniti is a key pick for the following key reasons:

- **High level of recurring revenue**: Around 90% of Uniti's revenue is recurring which compares favourably to its closest comp, Opticomm (OPC), which only has around 60% recurring revenue. The key difference between the two is Opticomm generates a much higher percentage of revenue from construction and connections than Uniti. The businesses of Uniti are also highly cash generative and, for instance, free cash flow in 2HFY20 is forecast to be around 70% or more of EBITDA.
- **Beneficiary of current environment**: Uniti is a beneficiary of the shift to working from home and the associated increase in residential demand for high speed broadband services. Evidence of this was the company had a record number of net new FTTP (fibre-to-the-premise) connections in March 2020. Even as restrictions ease and there is a shift back to the office we expect residential demand to remain strong given the likely desire to have the option of working from home.
- **Potential of an upgrade**: Uniti has guidance of underling EBITDA (which excludes transaction costs and share-based payments) of b/w $17.5-18.5m and also a 2HFY20 exit run rate for underlying EBITDA of b/w $38-40m. The company said in its Appendix 4C for the March quarter that all three businesses performed ahead of expectations in the quarter and the annualised run rate EBITDA at 31 March was above forecast. This suggests the company is tracking at least towards the upper end of the guidance and may even upgrade the guidance some time this month.
- **Looks reasonable value**: Uniti is trading on an FY21 EV/EBITDA multiple of just under 11x which we believe looks reasonable value both in an absolute sense and relative to Opticomm which is trading on an FY21 EV/EBITDA multiple of just over 11x. In our view the two should trade on a similar multiple given the close similarities between the two and the higher recurring revenue/better free cash flow of Uniti is probably offset by the longer pipeline of Opticomm as well as the higher barriers to entry.

***Overall view**: Uniti is one of the few stocks in the telco/tech space that still looks reasonable value in our view and is also the only stock where we see the potential of an upgrade to guidance. Even if there is no upgrade, we would expect a result towards the upper end of guidance which should still be well received. The other potential catalyst for the stock is that acquisitions may resume again after a bit of a hiatus.*

Figure 2 – Financial summary for Uniti Group (@ $1.665 share price)

Year end 30 June	2019*	2020e	2021e	2022e
Total revenue (A$m)	23.4	58.8	84.4	97.8
Underlying EBITDA (A$m)	2.0	25.9	45.7	53.6
Underlying NPAT (A$m)	-6.0	18.6	24.5	29.8
EPS (diluted) (cps)	-4.6	5.4	7.1	8.6
EPS growth (%)		NM	32%	21%
PER (x)	NM	30.8	23.4	19.4
Price/CF (x)	NM	25.2	15.8	13.6
EV/EBITDA (x)	NM	20.2	10.9	8.8
Dividend (¢ps)	0.0	0.0	0.0	3.0
Yield (%)	0.0%	0.0%	0.0%	1.8%
ROE (%)	NM	6.9%	8.1%	8.9%
Franking (%)	0%	0%	0%	100%

SOURCE: COMPANY DATA * PRO FORMA

Infomedia (BUY, PT $2.00)

Infomedia is a key pick for the following key reasons:

- **Limited downside risk to guidance**: Infomedia reaffirmed its FY20 guidance when it announced a capital raising in late April and also provided ranges for both expected revenue ($93-95m) and NPAT ($18-19m). We see limited downside risk to the guidance given the recent affirmation, the high level of recurring revenue (c.95%), the low customer contract concentration risk and the globally diversified earnings and operations.
- **Financial pressure on customers is lessening**: The lockdown restrictions applied globally over the past few months caused some of Infomedia's customers – automotive dealerships – to ask for a discount on their monthly subscriptions and in most cases this was provided (though it was not significant enough to be material or prevent reiteration of the guidance). Now that the lockdown restrictions are being eased globally we expect less financial pressure on the dealerships and less need for discounting going forward.
- **Acquisitions are likely nearing**: Infomedia recently raised a total of c.$84m in order to "accelerate its expanding pipeline of acquisition opportunities and to further invest in its core product and service offerings." We expect the first one or two acquisitions to occur in the coming months and believe these may provide a catalyst for the share price. Note we do not expect every acquisition announced to be EPS accretive but we do expect each to provide a complementary offering to Infomedia's current portfolio.
- **Underperformance relative to large cap tech**: Infomedia has underperformed relative to most large cap tech stocks over the past several weeks and we attribute this to the capital raising – which was done without an acquisition – and more generally to a market preference towards large caps. We do, however, expect this underperformance to reverse in the coming weeks or months given the likelihood of an acquisition or two and assuming the market remains robust which will likely cause some shift in preference towards mid caps in the search for value.

***Overall view**: Infomedia is a high quality business and has proven to be resilient with the recent reiteration of its FY20 guidance but we attribute the recent underperformance mostly to the recent capital raising which was done without an accompanying acquisition. We expect this to change, however, in the coming months when the company announces the first of potentially several acquisitions and this in our view will help drive a re-rating of the share price, especially if the first or second acquisitions are of decent size and profitable.*

Figure 3 - Financial summary for Infomedia (@ $1.63 share price)

Year end 30 June	2019	2020e	2021e	2022e
Total revenue (A$m)	84.6	95.2	116.6	140.2
EBITDA (A$m)	38.0	47.4	58.9	70.9
NPAT (A$m)	16.1	18.9	24.7	31.1
EPS (diluted) (cps)	5.1	5.8	6.6	8.2
EPS growth (%)	23%	12%	14%	25%
PER (x)	31.9	28.3	24.8	19.8
Price/CF (x)	13.2	13.7	10.8	10.4
EV/EBITDA (x)	15.4	12.3	8.5	7.4
Dividend (¢ps)	3.9	3.9	4.3	4.8
Yield (%)	2.4%	2.4%	2.6%	2.9%
ROE (%)	25.2%	12.3%	15.0%	17.4%
Franking (%)	0%	61%	25%	25%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

PWR Group (BUY, PT $5.00)

PWR is a key pick for the following key reasons:

- **Tide is turning**: PWR has been negatively impacted in 2HFY20 from the cessation of elite motorsports globally, the shutdown of most OE programs and to a lesser extent softness in the automotive aftermarket. As a result we have had to downgrade our FY20 NPAT forecast by around 25%. The good news, however, is that elite motorsports and OE programs are now recommencing and the automotive aftermarket is recovering so the worst now appears to be past for the company.
- **Strong outlook for FY21**: The outlook for FY21 is positive with the recommencement of elite motorsports and OE programs but it could be a particularly strong year if there is as many races as is currently planned to occur in 1HFY21. The first half for PWR is traditionally weak given a large portion of the manufacturing for elite motorsports happens in the second half but if there is an unusually high number of races in 1HFY21 then this could lead to a relatively strong first half result and set the foundation for a particularly strong full year result.
- **News flow should be positive**: The key to a strong 1HFY21 and FY21 result will be a high number of races in 1HFY21 and a relatively quick return to pre-COVID production levels for OE programs. There will be plenty of news flow in both these areas and, assuming both are achieved, the news flow should be generally positive which will provide a good read through for the 1HFY21 and FY21 results as well potential catalysts for the share price.
- **Looks reasonable value**: In our view PWR looks reasonable value on an FY21 PE ratio of c.25x considering the strong double digit earnings growth we growth for the next few years. We also believe there is some upside potential to our FY21 forecast – which would lower the PE ratio – depending on how many races are conducted in 1HFY21 and how quickly OE programs return to normal production levels.

***Overall view**: PWR has been hit hard in 2HFY20 by COVID-19 due to it being a manufacturer and having a relatively high fixed cost base but on the flip side the impact on 1HFY21 could be equally positive if elite motorsports try and complete a large portion of their seasons this year in the next six months. The key question is whether the market will look through the 2HFY20 and FY20 result but in our view it will, especially if the company indicates at the release of the result in August that demand is strong and capacity is improving month-to-month.*

Figure 4 - Financial summary for PWR Group (@$4.53 share price)

Year end 30 June	2019	2020e	2021e	2022e
Total revenue (A$m)	65.4	66.0	84.8	105.7
EBITDA (A$m)	21.8	22.9	31.7	39.9
NPAT (A$m)	14.2	12.1	18.0	23.3
EPS (diluted) (cps)	14.2	12.1	18.0	23.3
EPS growth (%)	29%	-15%	49%	29%
PER (x)	31.9	37.5	25.2	19.5
Price/CF (x)	24.3	31.9	19.2	15.0
EV/EBITDA (x)	20.3	19.0	14.0	10.9
Dividend (¢ps)	11.5	6.0	8.9	11.8
Yield (%)	2.5%	1.3%	2.0%	2.6%
ROE (%)	26.8%	22.7%	27.7%	29.7%
Franking (%)	100%	100%	100%	100%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key Sells

WiseTech Global (SELL, PT $17.50)

WiseTech is a key sell for the following key reasons:

- **Valuation**: We have high regard for WiseTech as a company and its SaaS operating model. We recognise its leading global market position and believe the medium to long term outlook is positive for the stock due to its SaaS platform and integrated modules which sets it apart from its competitors. The key issue we have, however, is valuation and we regard an FY21 PE ratio of >90x as excessive particularly when we forecast negative underlying EPS growth in FY20.
- **Expecting low end of guidance**: WiseTech has FY20 guidance of revenue b/w $420-450m and EBITDA b/w $114-132m and the company reaffirmed this guidance in late April as well as late May. We, however, expect the company to report towards the low end of both ranges and forecast revenue and EBITDA of $423m and $118m. We do not, therefore, expect the FY20 result to be a positive catalyst for the share price.
- **Further likely reductions in contingent liabilities**: WiseTech recently announced it had renegotiated the earn outs on 17 of its past acquisitions and the result was $147m reduction in contingent liabilities through the issue of $81.5m in equity and a $69.5m reduction in fair value. The company also said it expects to renegotiate the earn outs on most of the other acquisitions in the coming months and we expect a similar result with some reduction in contingent liabilities. The market reaction to the first announcement was negative and, assuming there is another reduction in earn outs, we expect the reaction to the next announcement to also be negative.
- **Potential write down of goodwill**: The reduction in contingent liabilities just mentioned did not result in any write down of goodwill but rather resulted in a fair value gain in the P&L. The reduction in earn outs does suggest, however, the acquisitions are not performing as well as expected so this also suggests the goodwill may not be justified and needs to be written down. The company said it does not anticipate any write down of goodwill but we do not rule it out with the upcoming audit of the FY20 result.

***Overall view**: The key driver of our SELL recommendation on WiseTech is valuation but we also see potential negative catalysts of an FY20 result towards the low end of the guidance ranges and also another reduction in earn outs on past acquisitions. The other key focus in the coming months will be the FY21 guidance and we already forecast a strong rebound so the risk on this is probably more to the downside than the upside.*

Figure 5 – Financial summary for WiseTech Global (@ $21.11 share price)

Year end 30 June	2019	2020e	2021e	2022e
Total revenue (A$m)	348.3	423.0	515.9	604.9
EBITDA (A$m)	108.1	118.4	157.4	202.6
NPAT (underlying) (A$m)	54.1	49.3	72.8	98.7
EPS (underlying and diluted) (cps)	17.7	15.4	22.5	30.4
EPS growth (%)	27%	-13%	46%	35%
PER (x)	119.6	136.8	93.9	69.4
Price/CF (x)	57.5	59.9	52.4	41.3
EV/EBITDA (x)	61.3	54.8	41.5	32.2
Dividend (¢ps)	3.5	3.2	4.4	6.2
Yield (%)	0.2%	0.1%	0.2%	0.3%
ROE (%)	7.1%	5.1%	7.1%	8.8%
Franking (%)	100%	100%	100%	100%

SOURCE: COMPANY DATA

Company Summaries

Uniti Group (UWL)

Uniti Group (Uniti) is a provider of telecommunications services, specialising in fixed-wireless, fibre and telco services. The objective of the company is to provide an alternative solution to the nbn on a national scale and, by operating at costs lower than accessing the nbn, can deliver products that are competitively priced when compared with products provided by nbn retail service providers.

Investment Thesis

We maintain our BUY recommendation on Uniti. Our investment thesis is based on:

- **Valuation**: Our 12 month price target on Uniti is $2.15. The price target is generated from a blend of two valuation methodologies we apply to the company: EV/EBITDA and DCF. The price target is a 32% premium to the current share price and the total expected return is the same given there is no forecast dividend.
- **Quality board and management**: In our view Uniti has a high quality senior management team and board of directors with extensive experience in the telecommunications industry. For instance, CEO Michael Simmons has over 30 years' experience in the telecommunications sector and was the CEO of both SP Telemedia and Vocus. Similarly, recently appointed director Vaughan Bowen was the founder of M2 Group which was established 20 years ago.
- **Good cash flow**: Uniti operates businesses that generate good cash flows and has said it will only target acquisitions which also generate good cash flow. The cash flow will be used to fund both organic growth – mainly through investment in the company's network – and also targeted acquisitions.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Competition risk**: Uniti faces competition from a number of alternative suppliers of broadband internet connectivity services, including resellers of nbn and mobile operators currently delivering 4G cellular services and soon 5G cellular services in these markets. If there is a temporary or permanent shift in the competitive landscape then this could have a negative impact on the financial performance of the company.
- **Supplier risk**: Uniti sources equipment and services from various third parties and a disruption in the supply of, or prices associated with, any of these may have a negative impact on the business. FuzeNet also generates approximately 85% of its customer revenue through the LBNCo network and a loss of the relationship with LBNCo may have a material adverse impact on the group's revenue and profitability.
- **Regulatory risk**: Uniti Wireless uses class license spectrum in the delivery of its services and, in order to do so, is subject to and must comply with laws, regulations and government policies. If changes occur to existing policies and legislation around the use of class licence spectrum – as well as other areas such as declared services and the prohibition of vertically integrated non-nbn fibre providers with RSPs – then this could have an adverse impact on the company.

Infomedia (IFM)

Company Description

Infomedia is a leading provider of software solutions to the parts and service sector of the global automotive industry. The key products of the company are online parts selling systems and sophisticated service selling systems. The company also provides data analysis and information research for the automotive and lubricant industries.

Investment Thesis

We upgrade our recommendation on Infomedia from HOLD to BUY. Our investment thesis is based on:

- **Valuation**: Our 12 month price target on Infomedia is $2.00. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is a 23% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 25%.
- **One mature product, one immature product**: Infomedia has one mature product – Microcat – which is used by a large number of customers and generates approximately 60% of the company's revenue. Infomedia also has one immature product – Superservice – which is gaining traction in a fragmented market and generates approximately 35% of the company's revenue. The outlook is for continued modest growth in the mature product and potentially strong growth in the immature product.
- **High level of recurring revenue**: All of Infomedia's products are sold on a subscription basis so almost all of the revenue is recurring. Infomedia is considering moving towards reporting monthly recurring revenue (MRR) but has yet to disclose what the amount is. We estimate that around 95% of total revenue is recurring and this easily exceeds the cost base of the company.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Loss of key licence agreements**: Continued access to OEM parts information is integral to several of Infomedia's product lines. Loss of this access through the loss of one or more key licence agreements would therefore have an adverse impact on one or more of the company's product lines and negatively impact the financial performance. Infomedia attempts to mitigate this risk by managing key account relationships, continually investing in its products and focusing on customer service.
- **Loss of key customers**: The relatively concentrated motor manufacturing industry means there is a degree of customer and revenue concentration for Infomedia. The loss of a key customer, therefore, would have an adverse impact on the company's revenue and negatively impact the financial performance. Infomedia attempts to mitigate this risk by, again, managing key account relationships.
- **Product obsolescence or substitution**: Infomedia operates in a competitive market and a risk is that its products do not keep up with developments in market needs or competitors (including OEMs) may develop superior products. Either outcome would have an adverse impact on demand for the company's products and negatively impact the financial performance. Infomedia attempts to mitigate this risk by closely monitoring market developments, direction and OEM strategies and continually investing in R&D.

PWR Group (PWH)

Company Description

PWR Holdings (PWR) is a leading provider of customised cooling solutions to the global motorsports market as well as the wider automotive industry. The key products of the company are radiators, intercoolers, oil coolers and heat exchangers for various elite motorsports series including Formula One, NASCAR and Supercars. The company also engineers cooling solutions for automotive OEMs (original equipment manufacturers) and is diversifying into emerging technology applications where cooling solutions are required.

PWR was established in 1998 and head office is in Ormeau, Queensland. All manufacturing is currently done in Ormeau but the company also has a fabrication facility in Indianapolis, Indiana as well as sales and distribution centres in both the US and the UK. Approximately 85% of the company's revenue is generated outside of Australia.

Investment Thesis

We maintain our BUY recommendation on PWR. Our investment thesis is based on:

- **Valuation**: Our 12 month price target on PWR is $5.00. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is a 10% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 12%.
- **Forecast strong growth**: We forecast negative EPS growth in FY20 but then a return to double digit growth in FY21 and FY22 assuming no prolonged lockdowns or restrictions from the coronavirus. The key drivers of this forecast strong growth are increasing contributions from OE programs and increased capacity in both Australia and the US.
- **Diversifying outside of motorsports**: PWR is diversifying its revenue base and increasing its exposure to areas outside of motorsports. For example, OEM represented c.10% of FY19 revenue and is now the third largest area of revenue after motorsports and the automotive aftermarket. Emerging Technologies is another focus area of the company and represented c.4% of FY19 revenue.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Customer risk**: PWR operates on a purchase order basis with its customers. The loss of, or significant reduction in purchases by, one or more key customers or the cessation of a leading motorsports series or team could lead to a reduction in PWR's revenue and earnings.
- **Product risk**: PWR regularly develops new products and upgrades existing products and any product failures, defects or recalls could affect PWR's reputation, revenue and earnings.
- **Currency risk**: Adverse movements in the GBP or USD against the AUD could have an adverse impact on performance. PWR does not currently hedge against currency risk. The sensitivity of FY16 NPAT for changes in key exchange rates provided in the prospectus was c.+/-$0.2m for a -/+ 1 pence move in the AUD/GBP exchange rate and c.+/-$0.05m for a 1 cent move in the AUD/USD exchange rate.

WiseTech Global (WTC)

Company Description

WiseTech Global (WiseTech) is a leading global provider of software solutions to the logistics services industry. The core product of the company – CargoWise One – is an integrated software platform that enables logistics service providers to facilitate the movement and storage of goods and information. WiseTech provides software solutions to over 12,000 customers including 43 of the top 50 global third party logistics providers.

WiseTech was founded in 1994 by Richard White who is the CEO and largest shareholder. Global headquarters are in Sydney, Australia and the company also has offices in New Zealand, China, Singapore, South Africa, the UK and the US. The company reports in AUD and, while there is forex exposure, this is limited by both natural and actual hedging.

Investment Thesis

We maintain our SELL recommendation on WiseTech. Our investment thesis is based on:

- **Valuation**: Our 12 month price target on WiseTech is $17.50. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The PT is a 17% discount to the current share price and the total expected return (which includes the forecast dividend yield) is the same.
- **Integrated platform is key competitive advantage**: The key competitive advantage of WiseTech is it provides a single, integrated platform that enables logistics service providers to execute key logistics transactions and also manage their businesses. The single platform delivers significant benefits to customers (e.g. reduced costs, improved productivity, etc.) and use of the platform tends to grow once it is installed.
- **High level of recurring revenue**: Approximately 72% of WiseTech's revenue comes from "On-Demand" licensing where customers pay a monthly fee in arrears based on their usage of the platform. Another 17% of revenue comes from ongoing licence maintenance fees. Both of these are recurring and represent c.88% of total revenue.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Customer risk**: WiseTech's business depends on its ability to retain customers and its growth depends on its ability to generate further business from existing customers as well as attract new customers. There is risk that WiseTech may lose some of its existing customers or retain its customers but some reduce their use of the software.
- **Macroeconomic risk**: A decline in regional and global trade volumes and/or recessionary economic conditions may adversely affect the financial performance of WiseTech. The customers of WiseTech are logistics service providers whose business operations depend on regional and global logistics activities which are closely linked to regional and global trade volumes.
- **Competition risk**: WiseTech competes against both other commercial logistics service software providers and potential customers' own IT departments that develop in-house logistics software. These competitors could increase their competitive position or expand their product offering and new competitors could also enter the market.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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