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# Catapult Group (CAT)

## Prudent approach

**Recommendation**  
**Hold** (unchanged)  
**Price**  
**\$0.915**  
**Target (12 months)**  
**\$1.00** (previously \$1.10)

**GICS Sector**  
**Software and Services**

**Expected Return**

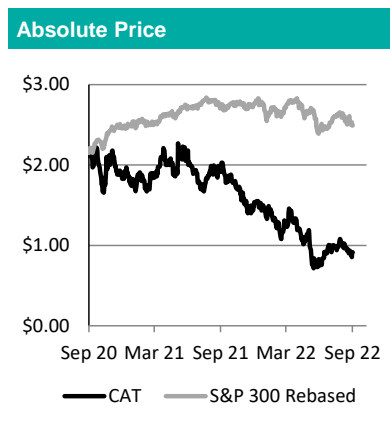
Capital growth	<b>9.3%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>9.3%</b>

**Company Data & Ratios**

Enterprise value	<b>\$178.4m</b>
Market cap	<b>\$214.4m</b>
Issued capital	<b>234.4m</b>
Free float	<b>79%</b>
Avg. daily val. (52wk)	<b>\$446,405</b>
12 month price range	<b>\$0.705 - \$2.08</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	1.08	0.73	1.97
Absolute (%)	-15.28	25.34	-53.44
Rel market (%)	-9.41	21.75	-43.70



SOURCE: IRESS

### Cuts costs, reaffirms FY23 guidance

Earlier this week Catapult provided an update of sorts and the key points were: costs are being reduced to accelerate a return to positive free cash flow; cost reductions are not expected to have a significant impact on growth; FY23 guidance of ACV growth >20% and churn <6% is reaffirmed; continuing to see strong growth with elite customers; and focus remains on integrating video and wearables solutions. The company said it continues to expect positive free cash flow in FY24 but the reduction in costs suggests the level will now be greater than previously anticipated. The areas of cost cutting were not specifically highlighted but Catapult said that investment is being concentrated in areas of “proven growth with strong margins” and the reductions will be in areas that are more “speculative”.

### Revenue downgrades, earnings upgrades

We have downgraded our FY23, FY24 and FY25 revenue forecasts by 3%, 2% and 2%. We figure the cost cuts have been partly driven by slightly weaker than expected top line growth this year – as well as the current macroeconomic environment – and these cuts will have some impact on future growth. We have, however, reduced our forecast underlying EBITDA loss in FY23 from US\$9.8m to US\$7.7m and modestly upgraded our underlying EBITDA forecasts in FY24 and FY25 – in absolute terms – on the back of the cost cuts. Our free cash flow forecast in FY24 is now modestly positive which suggests or implies we are still below the company’s expectations for next year.

### Investment view: PT down 9% to \$1.00, Maintain HOLD

We have updated each valuation used in the determination of our price target for the forecast changes as well as market movements and time creep. On the back of the cost cuts and the lower expected top line growth we have also reduced the multiple applied in the EV/Revenue valuation from 1.75 to 1.50 and the terminal growth rate in the DCF from 5.0% to 4.0%. The net result is a 9% decrease in our PT to \$1.00 which is <15% premium to the share price so we maintain our HOLD recommendation.

**Earnings Forecast**

Year end 31 March	2022	2023e	2024e	2025e
Total revenue (US\$m)	77.0	89.4	105.5	122.0
EBITDA (underlying) (US\$m)	-5.8	-7.7	2.6	10.3
NPAT (statutory) (US\$m)	-32.2	-36.6	-22.0	-14.9
EPS (diluted) (US¢ps)	-14.9	-15.7	-9.3	-6.3
EPS growth (%)	NM	NM	NM	NM
PER (x)	NM	NM	NM	NM
Price/CF (x)	53.7	47.4	11.9	11.3
EV/Revenue (x)	1.7	1.4	1.2	1.1
Dividend (A¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	NM	NM	NM	NM
Franking (%)	0.0%	0.0%	0.0%	0.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Forecast and Valuation Changes

## Revenue Downgrades, Earnings Upgrades

We have downgraded our FY23, FY24 and FY25 revenue forecasts by 3%, 2% and 2%. We figure the cost cuts have been partly driven by slightly weaker than expected top line growth this year – as well as the current macroeconomic environment – and these cuts will have some impact on future growth. We have, however, reduced our forecast underlying EBITDA loss in FY23 from US\$9.8m to US\$7.7m and modestly upgraded our underlying EBITDA forecasts in FY24 and FY25 – in absolute terms – on the back of the cost cuts. Our free cash flow forecast in FY24 is now modestly positive which suggests or implies we are still below the company's expectations for next year.

A summary of the changes in our key forecasts is shown below. We continue to forecast no dividends over the next three years. Our forecast cash balances at year end are now US\$9.8m in FY23 and US\$11.0m in FY24 so the company appears to have sufficient cash.

Figure 1 - Change in key forecasts

Year end 31 March	FY23e			FY24e			FY25e		
	Old	New	Change	Old	New	Change	Old	New	Change
Total revenue (US\$m)	91.9	89.4	-2.7%	107.7	105.5	-2.1%	125.0	122.0	-2.4%
EBITDA (statutory)	-16.8	-14.7	NM	0.8	1.6	98.9%	9.6	10.0	4.0%
EBITDA (underlying)	-9.8	-7.7	NM	1.8	2.6	NM	9.9	10.3	NM
NPAT	-38.5	-36.6	NM	-22.8	-22.0	NM	-15.2	-14.9	NM
Diluted EPS (USc)	-16.5c	-15.7c	NM	-9.6c	-9.3c	NM	-6.4c	-6.3c	NM
DPS (Ac)	0.0c	0.0c	NM	0.0c	0.0c	NM	0.0c	0.0c	NM

SOURCE: BELL POTTER SECURITIES ESTIMATES

## 9% Decrease in PT to \$1.00

We have updated each valuation used in the determination of our price target for the forecast changes as well as market movements and time creep. On the back of the cost cuts and the lower expected top line growth we have also reduced the multiple applied in the EV/Revenue valuation from 1.75 to 1.50 and the terminal growth rate in the DCF from 5.0% to 4.0%. There is, however, no change in the 9.4% WACC we apply in the DCF.

The change in each valuation and the impact on our PT calculation is shown below.

Figure 2 - Change in valuations and impact on PT

Methodology	Old (as at 27-May-22)			New (as at 23-Sep-22)		
	Valuation per share	% weighting	Valuation per share	Valuation per share	% weighting	Valuation per share
EV/Revenue	\$1.07	75%	\$0.80	\$0.95	75%	\$0.71
DCF	\$1.20	25%	\$0.30	\$1.16	25%	\$0.29
<b>Total</b>			<b>\$1.10</b>			<b>\$1.00</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a double digit percentage decrease in the EV/Revenue and a more modest single digit percentage decrease in the DCF. The net result is a 9% decrease in our PT to \$1.00 which is <15% premium to the share price so we maintain our HOLD recommendation.

# Catapult Group

## Company Description

Catapult Group (Catapult) is a leading global provider of elite athlete wearing tracking solutions and also analytics for athlete tracking. The key target market of Catapult is elite sporting teams and organisations and the recent acquisition of SBG also now gives the company a presence in motorsports. The core market of analytics and wearables is currently valued at around US\$8bn and is forecast to double by 2026.

## Investment Thesis

We maintain our HOLD recommendation on Catapult. Our investment thesis is based on:

- **Valuation:** Our price target for Catapult is \$1.00 which we generate through a blend of EV/Revenue and DCF. The PT is a 9% premium to the current share and there is no forecast dividend yield.
- **High level of recurring revenue:** Catapult generates most of its revenue through capital and subscription sales where the former is one-off in nature and the latter is recurring. Subscription revenue is now by far the largest component of revenue and represented 92% of total FY22 revenue.
- **Underpenetrated market:** Catapult is the clear global leader in wearable athlete tracking solutions and at the end of FY22 had c.3,425 elite and professional teams as customers. Despite this leading position, however, only a small fraction of all elite and professional athletes currently have any wearable solution in place so the market is very underpenetrated and there is significant opportunity for growth.

## Key Risks

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

- **Industry and competition risk:** Catapult's performance could be adversely affected if existing or new competitors develop alternative products which are more innovative, easier to use or cost effective than those that have been or may be developed by Catapult. This may place pricing pressure on Catapult's product offering and may impact on Catapult's ability to retain existing clients as well attract new clients.
- **Product development risk:** Catapult has developed its athlete tracking technology and products and continues to invest in further development of these products. There is risk, however, that further development of its athlete tracking technology and products is not successful or falls short of achieving key development milestones. Such an outcome may prevent new or developed products from becoming commercial which could adversely impact the financial performance of the company.
- **Key person risk:** Catapult employs over 300 people in a global workforce and this includes a number of key technical and sales staff. If one or more of these key technical and/or sales staff leave the company then this may have an adverse impact on the financial performance. This impact may also be prolonged if it proves difficult or timely to replace those key staff.

Table 1 - Financial summary

Catapult Group International (CAT)						Share price:	<b>\$0.915</b>	Price Target:	<b>\$1.00</b>		
						No. of issued shares:	<b>234.4m</b>	Market cap:	<b>\$214.4m</b>		
<b>Profit &amp; Loss (US\$m)</b>						<b>Valuation data</b>					
Year end 31 Mar	2021	2022	2023e	2024e	2025e	Year end 31 Mar	2021	2022	2023e	2024e	2025e
Revenue	67.3	77.0	89.4	105.5	122.0	NPAT (US\$m)	-8.2	-32.2	-36.6	-22.0	-14.9
Change	-7%	14%	16%	18%	16%	Diluted EPS (USc)	-4.2	-14.9	-15.7	-9.3	-6.3
COGS	-17.6	-19.6	-23.5	-24.8	-26.8	Change	NM	NM	NM	NM	NM
Gross profit	49.7	57.4	65.9	80.7	95.2	Diluted EPS (Ac)	-5.6	-20.5	-22.4	-12.9	-8.4
Gross margin	73.9%	74.5%	73.8%	76.5%	78.0%	P/E ratio (x)	NM	NM	NM	NM	NM
Total variable costs	-17.2	-24.1	-27.3	-30.6	-35.1	CFPS (Ac)	9.7	1.7	1.9	7.7	8.1
Contribution profit	32.5	33.3	38.7	50.1	60.1	Price/CF (x)	9.5	53.7	47.4	11.9	11.3
Contribution margin	48.3%	43.2%	43.3%	47.5%	49.3%	DPS (Ac)	0.0	0.0	0.0	0.0	0.0
Total fixed costs	-27.0	-49.3	-53.6	-48.8	-50.3	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Other income	1.0	1.8	0.3	0.3	0.3	Franking	0%	0%	0%	0%	0%
EBITDA (statutory)	6.5	-14.3	-14.7	1.6	10.0	EV/Revenue (x)	2.0	1.7	1.4	1.2	1.1
D&A	-13.9	-18.6	-23.2	-25.0	-26.2	EV/EBITDA (x)	20.5	NM	NM	82.5	13.4
EBIT	-7.4	-32.9	-38.0	-23.4	-16.2	EV/Underlying EBITDA	19.0	NM	NM	50.4	13.0
Net interest (expense)/revenue	-0.8	-0.8	-0.6	-0.4	-0.3	NTA per share (Ac)	7.8	5.6	-4.1	-11.4	-13.7
Pre-tax profit	-7.4	-33.6	-38.5	-23.8	-16.5	Price/NTA (x)	11.7	16.3	NM	NM	NM
Income tax expense	-0.8	1.4	1.9	1.8	1.7	ACV at year end	48.4	63.9	77.5	93.2	108.9
NPAT	-8.2	-32.2	-36.6	-22.0	-14.9	Change		32%	21%	20%	17%
EBITDA (underlying)	7.0	-5.8	-7.7	2.6	10.3						
<b>Cash Flow (US\$m)</b>						<b>Performance ratios</b>					
Year end 31 Mar	2021	2022	2023e	2024e	2025e	Year end 31 Mar	2021	2022	2023e	2024e	2025e
EBITDA	6.5	-14.3	-14.7	1.6	10.0	EBITDA margin	9.7%	-18.5%	-16.5%	1.5%	8.2%
Change in working capital	5.9	16.9	16.5	10.3	3.0	Return on assets	NM	NM	NM	NM	NM
Gross cash flow	12.5	2.6	1.8	11.8	13.1	Return on equity	NM	NM	NM	NM	NM
Other	1.7	0.1	1.3	1.4	1.3	ROIC	NM	NM	NM	NM	NM
Operating cash flow	14.2	2.7	3.2	13.2	14.4	Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Payments for PPE	-2.2	-7.0	-5.0	-2.5	-3.0	Effective tax rate	10.9%	-4.3%	-5.0%	-7.5%	-10.0%
Capitalised development	-7.1	-13.5	-15.0	-10.0	-10.0						
Other	-0.5	-19.3	0.0	0.0	0.0						
Investing cash flow	-9.8	-39.9	-20.0	-12.5	-13.0	<b>Leverage ratios</b>					
Proceeds from options/shares	0.9	44.8	0.5	0.5	0.5	Year end 31 Mar	2021	2022	2023e	2024e	2025e
Other	2.0	-1.4	0.0	0.0	0.0	Net debt/(cash) (A\$m)	-27.2	-36.0	-14.0	-15.1	-17.1
Payment of financing loans	-4.6	-1.9	0.0	0.0	0.0	Net debt/equity	NM	NM	NM	NM	NM
Dividends paid	0.0	0.0	0.0	0.0	0.0	Gearing	NM	NM	NM	NM	NM
Financing cash flows	-1.7	41.5	0.5	0.5	0.5	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Net change in cash	2.7	4.4	-16.3	1.2	1.9	Net interest cover (x)	NM	NM	NM	NM	NM
Cash at start of period	19.4	22.2	26.1	9.8	11.0	<b>Segmentals (US\$m)</b>					
Exchange rate impact	0.0	-0.4	0.0	0.0	0.0	Year end 31 Mar	2021	2022	2023e	2024e	2025e
Cash at end of period	22.2	26.1	9.8	11.0	12.8	Revenue (US\$m)					
<b>Balance Sheet (US\$m)</b>						Wearables	33.5	34.7	39.0	42.9	47.2
Year end 31 Mar	2021	2022	2023e	2024e	2025e	Video analytics	30.6	39.7	47.6	59.5	71.4
Cash	22.2	26.1	9.8	11.0	12.8	New products	3.3	2.7	2.8	3.1	3.4
Current receivables	13.3	17.9	15.6	10.5	13.7	Total revenue	67.3	77.0	89.4	105.5	122.0
Inventory	3.9	3.0	2.2	2.1	1.8	<b>Growth</b>					
Other current assets	0.0	0.0	0.0	0.0	0.0	Wearables		4%	13%	10%	10%
Non-current receivables	0.3	0.3	0.3	0.3	0.3	Video analytics		30%	20%	25%	20%
PPE	9.5	15.6	14.8	11.1	7.5	New products		-19%	5%	10%	10%
Intangibles - Goodwill	42.0	51.8	51.8	51.8	51.8	Total growth		14%	16%	18%	16%
Intangibles - Other	23.2	48.3	45.9	37.2	27.5	<b>Interims (US\$m)</b>					
Deferred tax assets	7.5	10.4	10.4	10.4	10.4	Year end 31 Mar	1HFY22	2HFY22	1HFY23e	2HFY23e	
Other non-current assets	0.0	0.0	0.0	0.0	0.0	Revenue		37.5	39.5	43.6	45.8
Total assets	121.8	173.5	150.9	134.4	126.0	COGS		-9.9	-9.7	-11.8	-11.7
Payables	6.9	9.9	13.4	18.5	24.4	Gross profit		27.5	29.9	31.8	34.1
Current contract liabilities	17.8	25.4	17.9	17.9	17.9	Gross margin		73.5%	75.6%	73.0%	74.5%
Current borrowings	1.7	0.0	0.0	0.0	0.0	Total variable costs		-10.7	-13.4	-13.1	-14.2
Other current liabilities	9.5	11.6	11.6	11.6	11.6	Contribution profit		16.8	16.5	18.7	19.9
Non-current contract liabilities	3.1	4.6	4.6	4.6	4.6	Contribution margin		44.9%	41.6%	43.0%	43.5%
Employee benefits	0.1	0.1	0.1	0.1	0.1	Total fixed costs		-21.0	-28.4	-26.2	-27.5
Borrowings	0.0	0.0	0.0	0.0	0.0	Other income		1.7	0.0	0.3	0.0
Deferred tax liabilities	3.1	10.3	10.3	10.3	10.3	EBITDA (statutory)		-2.4	-11.8	-7.2	-7.6
Other non-current liabilities	2.6	2.1	2.1	2.1	2.1	D&A		-7.9	-10.7	-11.3	-11.9
Total liabilities	44.9	63.9	60.0	65.0	70.9	EBIT		-10.3	-22.5	-18.5	-19.5
Share capital	130.5	175.5	183.5	184.0	184.5						
Reserves	3.0	22.7	32.7	32.7	32.7						
Retained earnings/(losses)	-56.4	-88.5	-125.1	-147.2	-162.1						
Non-controlling interests	0.0	-0.1	-0.1	-0.1	-0.1						
Total shareholders' equity	76.9	109.6	91.0	69.4	55.0						

SOURCE: BELL POTTER SECURITIES ESTIMATES

**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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