

Analyst

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Envirosuite (EVS)

Momentum building

Recommendation

Buy (unchanged)

Price

\$0.093

Target (12 months)

\$0.20 (unchanged)

GICS Sector

Software and Services

Expected Return

Capital growth	>100%
Dividend yield	0.0%
Total expected return	>100%

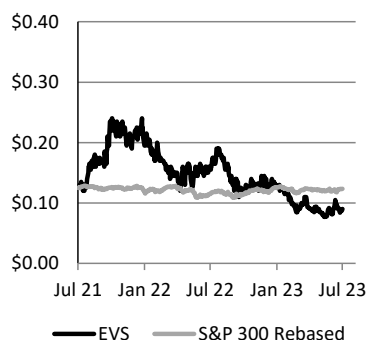
Company Data & Ratios

Enterprise value	\$109.2m
Market cap	\$117.3m
Issued capital	1,261.8m
Free float	95%
Avg. daily val. (52wk)	\$103,555
12 month price range	\$0.075 - \$0.19

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.09	0.09	0.16
Absolute (%)	4.65	-3.23	-43.75
Rel market (%)	2.44	-3.11	-51.50

Absolute Price



SOURCE: IRESS

Record quarter

Envirosuite provided a 4QFY23 sales update which was a record in terms of quarter sales and the key points were: 1. Sales up 13% to \$6.8m comprising new ARR of \$3.1m and project sales of \$3.7m; 2. Total ARR up 12% to \$59.4m (vs BPe \$59.0m); and 3. Annualised churn of 8.1% but includes one-off churn event in Q3 (1.9% excluding one-off impact). The company also reaffirmed its target of “transitioning to adjusted EBITDA profitability in FY23” and added that it “enters FY24 with a strong pipeline, upward momentum across the product portfolios and regions, and rapidly growing interest from major corporate and industry participants”. On the conference call CFO Justin Owen added that the cash position at 30 June was >\$8m which was slightly ahead of our forecast of \$7.7m.

Modest downgrades

We have modestly downgraded our revenue forecasts in FY23, FY24 and FY25 by 1%, 2% and 3% mainly for conservatism despite the slightly better than expected Q4 sales result. The downgrades are driven by reductions in our recurring rather than non-recurring forecasts. The revenue downgrades have had a similar percentage impact on our statutory and adjusted EBITDA forecasts but there is a larger impact at NPAT/EPS due to the lack of change in our D&A and net interest expense forecasts. We have, however, modestly increased our forecast cash position at 30 June 2023 to \$8.1m given the comment on the call that it is >\$8m.

Investment view: \$0.20 PT unchanged, Maintain BUY

We have upgraded each valuation used in the determination of our price target for the earnings changes as well as market movements and time creep. There are no changes in the key assumptions we apply which are a 2.5x multiple in the EV/Revenue and a 9.1% WACC and 4.5% terminal growth rate. The net result is no change in our PT of \$0.20 which is >100% premium to the share price so we maintain our BUY recommendation. Potential catalysts include the upcoming FY23 result (e.g. potential positive adjusted EBITDA in H2) and the FY24 outlook (e.g. positive free cash flow).

Earnings Forecast

Year end 30 June	2022	2023e	2024e	2025e
Total revenue (A\$m)	53.5	57.6	67.6	79.4
EBITDA (statutory) (A\$m)	-4.4	-1.7	4.6	13.1
NPAT from cont. ops. (A\$m)	-13.2	-10.6	-5.4	1.5
EPS (diluted) (cps)	-1.1	-0.8	-0.4	0.1
EPS growth (%)	NM	NM	NM	NM
PER (x)	NM	NM	NM	79.6
Price/CF (x)	NM	NM	26.3	10.4
EV/EBITDA (x)	NM	NM	24.0	8.3
Dividend (€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%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forecasts and Valuation Changes

Modest Downgrades

We have modestly downgraded our revenue forecasts in FY23, FY24 and FY25 by 1%, 2% and 3% mainly for conservatism despite the slightly better than expected Q4 sales result. The downgrades are driven by reductions in our recurring rather than non-recurring forecasts. The revenue downgrades have had a similar percentage impact on our statutory and adjusted EBITDA forecasts but there is a larger impact at NPAT/EPS due to the lack of change in our D&A and net interest expense forecasts. We have, however, modestly increased our forecast cash position at 30 June 2023 to \$8.1m given the comment on the call that it is >\$8m.

A summary of the changes in our key forecasts is shown below. We continue to forecast no dividends over the next three years.

Figure 1 - Change in key forecasts

Year end 30 June	FY23e			FY24e			FY25e		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales revenue (A\$m)	57.9	57.5	-0.8%	68.7	67.5	-1.6%	82.2	79.4	-3.4%
EBITDA (statutory)	-1.7	-1.7	NM	4.6	4.6	-1.6%	13.6	13.1	-3.4%
EBITDA (adjusted)	-0.2	-0.2	NM	4.9	4.8	-1.6%	13.8	13.3	-3.3%
NPAT	-10.7	-10.6	NM	-5.3	-5.4	NM	1.9	1.5	-20.9%
Diluted EPS	-0.8c	-0.8c	NM	-0.4c	-0.4c	NM	0.1c	0.1c	-20.4%
DPS	0.0c	0.0c	NM	0.0c	0.0c	NM	0.0c	0.0c	NM

SOURCE: BELL POTTER SECURITIES ESTIMATES

\$0.20 PT Unchanged

We have upgraded each valuation used in the determination of our price target for the earnings changes as well as market movements and time creep. There are no changes in the key assumptions we apply which are a 2.5x multiple in the EV/Revenue and a 9.1% WACC and 4.5% terminal growth rate.

The change – if any – 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 18-Apr-23)			New (as at 26-Jul-23)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
EV/Revenue	\$0.14	50%	\$0.07	\$0.14	50%	\$0.07
DCF	\$0.26	50%	\$0.13	\$0.25	50%	\$0.13
Total			\$0.20			\$0.20

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows little if any change in each valuation. The net result is no change in our PT of \$0.20 which is >100% premium to the share price so we maintain our BUY recommendation. Potential catalysts include the upcoming FY23 result (e.g. potential positive adjusted EBITDA in H2) and the FY24 outlook (e.g. positive free cash flow).

Envirosuite

Company Description

Envirosuite is a leading global provider of environmental management software. The software combines the use of big data, artificial intelligence and analytics to produce real-time visualisations, predictive modelling and actionable insights that enable companies, government and communities to make decisions that optimise operational and environmental outcomes. The company provides solutions across three key sectors – air, noise and water – and has over 500 customers worldwide (including BHP, Tata Group, Thames Water, Heathrow Airport and Lendlease Group).

Investment Thesis

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

- **Valuation:** Our price target for Envirosuite is \$0.20 which is >100% premium to the current share price. The price target is generated from a blend of the two methodologies we apply to the company: EV/Revenue and DCF.
- **Large global market:** The size of the serviceable addressable market (or SAM) for Envirosuite is estimated to be c.US\$4.2 billion p.a. globally and note this only includes the target verticals of the company. The size of one of the key target verticals – water treatment – is estimated to be US\$2.8bn p.a. globally and Envirosuite recently launched its solution for this market following the acquisition of AqMB.
- **Lack of competitors:** There are many suppliers of environmental management software globally though there are few if any that cover all of the same sectors as Envirosuite or whose software has the same functionality. The greater functionality means the Envirosuite software tends to be more expensive than its competitors but also means the company often wins the tender when the requirements are complex.

Key Risks

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

- **Regulatory risk:** A key driver of demand for Envirosuite's platform is the need for organisations to be able to demonstrate they are complying with regulatory requirements. If there is a change in regulation then this can impact the demand – positively or negatively – for Envirosuite's platform.
- **Competition risk:** The competitive landscape could change if a competitor develops a similar or better product than Envirosuite's platform in terms of functionality, ease of implementation/integration and/or price. At present Envirosuite is relatively unique in terms of the sectors it covers and the functionality of its platform but this could change especially if the demand for environmental management software continues to increase which may attract new providers to the market.
- **Customer/market concentration:** A key customer segment for Envirosuite following the acquisition of EMS is airports and this means there is some concentration risk with >75% revenue generated in this area.

Table 1 - Financial summary

Envirosuite (EVS)						Share price:	\$0.093	Price Target:	\$0.20		
						No. of issued shares:	1,261.8m	Market cap:	\$117.3m		
Profit & Loss (A\$m)						Valuation data					
Year end 30 Jun	2021	2022	2023e	2024e	2025e	Year end 30 Jun	2021	2022	2023e	2024e	2025e
Trading revenue	48.5	53.4	57.5	67.5	79.4	NPAT from cont. ops. (A\$m)	-12.5	-13.2	-10.6	-5.4	1.5
Other revenue	0.0	0.0	0.2	0.0	0.0	Diluted EPS (cps)	-1.2	-1.1	-0.8	-0.4	0.1
Total revenue	48.6	53.5	57.6	67.6	79.4	Change	NM	NM	NM	NM	NM
Change	>100%	10%	8%	17%	17%	P/E ratio (x)	NM	NM	NM	NM	79.6
Cost of revenue	-28.0	-28.4	-28.9	-32.1	-34.7	CFPS (cps)	-0.8	-0.3	-0.1	0.4	0.9
Gross profit	20.6	25.1	28.7	35.5	44.6	Price/CF (x)	NM	NM	NM	26.3	10.4
Gross margin	42.4%	47.0%	50.0%	52.5%	56.3%	DPS (cps)	0.0	0.0	0.0	0.0	0.0
Expenses (excl. D&A)	-25.3	-29.5	-30.5	-30.9	-31.5	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
% of revenue	-52.2%	-55.2%	-53.0%	-45.8%	-39.8%	Franking	0%	0%	0%	0%	0%
EBITDA (statutory)	-4.7	-4.4	-1.7	4.6	13.1	EV/Revenue (x)	2.3	2.0	1.9	1.6	1.4
Depreciation	-2.3	-2.6	-2.9	-3.2	-3.4	EV/EBITDA (x)	NM	NM	NM	24.0	8.3
Amortisation	-4.7	-5.6	-6.4	-7.2	-7.9	NTA per share (cps)	1.5	1.4	0.7	0.6	0.9
Forex gain/loss	0.0	0.0	0.0	0.0	0.0	Price/NTA (x)	6.0	6.8	14.1	16.2	10.6
EBIT	-11.7	-12.6	-11.0	-5.8	1.8	Adjusted EBITDA	-4.5	-4.0	-0.2	4.8	13.3
Net interest (expense)/revenue	-0.3	-0.2	-0.2	-0.1	-0.1	EV/Adjusted EBITDA (x)	NM	NM	NM	22.7	8.2
Pre-tax profit	-12.0	-12.8	-11.2	-6.0	1.7	ARR at year end (A\$m)	46.5	53.0	59.4	69.8	81.1
Income tax expense	-0.5	-0.4	0.6	0.6	-0.3	Performance ratios					
NPAT from cont. ops.	-12.5	-13.2	-10.6	-5.4	1.5	Year end 30 Jun	2021	2022	2023e	2024e	2025e
Discontinued operations	0.0	0.0	0.0	0.0	0.0	EBITDA margin	NM	NM	NM	6.8%	16.5%
NPAT from discount. ops.	-12.5	-13.2	-10.6	-5.4	1.5	EBIT margin	NM	NM	NM	NM	NM
Cash Flow (A\$m)						Return on assets	NM	NM	NM	NM	NM
Year end 30 Jun	2021	2022	2023e	2024e	2025e	Return on equity	NM	NM	NM	NM	NM
EBITDA	-4.7	-4.4	-1.7	4.6	13.1	Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Change in working capital	-3.4	1.9	-0.4	-0.6	-1.4	Effective tax rate	3.9%	3.2%	-5.0%	-10.0%	-15.0%
Gross cash flow	-8.2	-2.5	-2.1	4.0	11.7	Leverage ratios					
Other revenue	0.2	-0.3	0.0	0.0	0.0	Year end 30 Jun	2021	2022	2023e	2024e	2025e
Interest received	0.0	0.0	-0.2	-0.1	-0.1	Net debt/(cash) (A\$m)	-17.6	-16.3	-8.1	-6.1	-9.9
Interest paid	0.0	0.0	0.0	0.0	0.0	Net debt/equity	NM	NM	NM	NM	NM
Tax paid	-0.5	-0.5	0.6	0.6	-0.3	Gearing	NM	NM	NM	NM	NM
Operating cash flow	-8.5	-3.2	-1.7	4.5	11.4	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Payments for PPE	-0.7	-1.8	-2.0	-2.0	-2.0	Net interest cover (x)	-40.9	-59.9	-70.1	-49.5	30.6
Payments for acquisitions	-5.6	0.0	0.0	0.0	0.0	Segmentals (A\$m)					
Payments for IP	-3.1	-4.8	-5.5	-5.5	-5.5	Year end 30 Jun	2021	2022	2023e	2024e	2025e
Investing cash flow	-9.5	-6.5	-7.5	-7.5	-7.5	Recurring revenue	40.4	43.9	49.4	57.4	67.4
Proceeds from borrowings	0.0	0.1	0.0	0.0	0.0	Non-recurring revenue	8.2	9.6	8.1	10.2	11.9
Repayment of borrowings	-0.1	0.0	0.0	0.0	0.0	Trading revenue	48.5	53.4	57.5	67.5	79.4
Proceeds from shares	13.1	10.1	1.0	1.0	0.0	Other revenue					
Dividends paid	0.0	0.0	0.0	0.0	0.0	R&D tax incentive	0.0	0.0	0.0	0.0	0.0
Financing cash flows	11.5	8.3	1.0	1.0	0.0	Other revenue	0.0	0.0	0.2	0.0	0.0
Net change in cash	-6.4	-1.4	-8.2	-2.0	3.9	Profit on sale of fixed asset	0.0	0.0	0.0	0.0	0.0
Exchange rate impact	-0.3	0.0	0.0	0.0	0.0	Total other revenue	0.0	0.0	0.2	0.0	0.0
Cash at start of period	24.4	17.6	16.3	8.1	6.1	Total revenue from cont. ops.	48.6	53.5	57.6	67.6	79.4
Cash at end of period	17.6	16.3	8.1	6.1	9.9	Growth	>100%	10%	8%	17%	17%
Balance Sheet (A\$m)						Interims (A\$m)					
Year end 30 Jun	2021	2022	2023e	2024e	2025e						
Cash	17.6	16.3	8.1	6.1	9.9	1HFY22	2HFY22	1HFY23	2HFY23e		
Current receivables	11.6	12.4	11.5	13.5	15.9	Trading revenue	26.8	26.6	27.4	30.1	
Other current assets	2.0	3.9	3.9	3.9	3.9	Other revenue	0.0	0.0	0.1	0.0	
Inventories	2.5	2.4	2.6	3.0	3.6	Total revenue	26.8	26.6	27.6	30.1	
PPE	6.3	5.2	4.3	4.7	3.4	Change	14%	7%	3%	13%	
Deferred tax asset	0.9	1.0	1.0	1.0	1.0	Cost of revenue	-13.8	-14.5	-13.7	-15.2	
Intangibles - Goodwill	89.5	89.6	89.6	89.6	89.6	Gross profit	13.0	12.1	13.8	14.9	
Intangibles - Other	19.4	19.1	18.2	14.9	12.4	Gross margin	48.5%	45.5%	50.5%	49.6%	
Other non-current assets	0.1	0.9	0.9	0.9	0.9	Expenses (excl. D&A)	-14.6	-14.9	-15.7	-14.8	
Total assets	149.8	150.7	140.0	137.5	140.5	% of revenue	-54.6%	-55.8%	-55.5%	-49.2%	
Payables	8.0	10.0	8.9	10.8	12.3	EBITDA	-1.7	-2.8	-1.8	0.1	
Revenue in advance	2.7	4.1	4.1	4.1	4.1	Depreciation	-1.3	-1.3	-1.4	-1.5	
Current provisions	3.9	4.5	4.5	4.5	4.5	Amortisation	-2.8	-2.8	-3.2	-3.2	
Current borrowings	0.0	0.0	0.0	0.0	0.0	EBIT	-5.7	-6.9	-6.4	-4.6	
Current lease liabilities	1.5	1.0	1.0	1.0	1.0	Net interest (expense)/revenue	-0.1	-0.1	-0.1	-0.1	
Non-current provisions	0.1	0.2	0.2	0.2	0.2	Pre-tax profit	-5.9	-6.9	-6.5	-4.7	
Non-current borrowings	0.0	0.0	0.0	0.0	0.0	Income tax expense	0.1	-0.5	0.3	0.2	
Non-current lease liabilities	2.5	1.2	1.2	1.2	1.2	NPAT from cont. ops.	-5.8	-7.4	-6.1	-4.5	
Total liabilities	22.5	25.0	23.9	25.8	27.3						
Issued capital	169.5	180.6	181.6	182.6	182.6						
Reserves	11.9	10.8	10.8	10.8	10.8						
Retained earnings/(losses)	-54.1	-65.7	-76.3	-81.7	-80.2						
Total shareholders' equity	127.3	125.7	116.1	111.7	113.2						

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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