

Envirosuite Limited

Buy

Mar'23 4C: ARR broadly flat due to Aviation churn, 4Q pipeline remains strong

Information Technology Application Software

20 April 2023

COMPANY UPDATE

Ticker	EVS
Stock Price	\$0.09
Target Price	\$0.17
Forecast Capital Return	80.4%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12Mth	80.4%

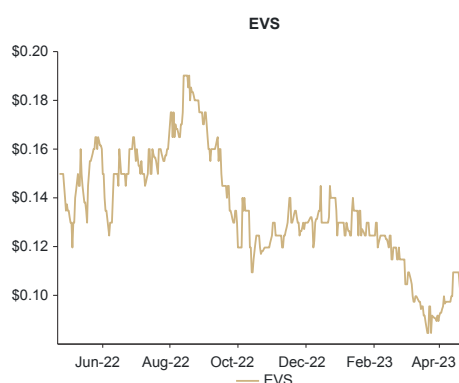
COMPANY MARKET DATA

Market Cap	\$119.6m
Free Float (%)	50.0%
Enterprise Value	\$111.3m
Shares on issue	1,285.8m
52-wk Range	\$0.08 - \$0.19

ESTIMATE CHANGES	2022a	2023e	2024e	2025e
Sales - new	53.5	58.0	66.4	76.1
Sales - old	53.5	58.5	68.6	78.7
% Change	0.0%	(0.9)%	(3.2)%	(3.4)%
EBITDA - new	(4.0)	0.3	4.8	10.0
EBITDA - old	(4.0)	0.5	5.4	10.9
% Change	n/a	(38.3)%	(11.5)%	(8.2)%

All figures are in AUD unless otherwise specified.

SHARE PRICE PERFORMANCE



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EVENT

Mar'23 ARR \$56.2m (+15% pcp, -1% vs. Dec'22). 3Q ARR movement included:

Aviation (~\$1.9m) as \$0.9m of new wins (incl. Aena scope expansion & new China-based customer) were offset by ~\$3m churn (primarily 3 sites with the Department of Defense).

Industrial (+\$1.1m) led by: waste facilities customers in the U.S. (driven by new federal "Environmental Justice" legislation) and continued growth in the mining sector.

Water (flat) with 6 customer sites going live.

Project sales rebounded to \$2.2m (vs. \$1m in 2Q) with "upward trajectory expected to continue in 4Q".

FY23 guidance maintained for adjusted EBITDA positive run-rate by Jun'23.

IMPACT

We reduce FY23e ending ARR by \$3m to \$59.4m (reflecting lost DoD aviation sites).

INVESTMENT VIEW

We estimate that the 3 churned sites from DoD reflected ~\$3m of ARR. However, the risk of further short-term churn related to this event is minimal given a) the nature of the DoD being quite different from regular 'airport operator' customers (noting key customer 'Aena' expanded scope during the QTR to \$4.8m ARR); and b) remaining 2 DoD sites currently under contract until FY25.

EVS Industrial had a strong 3Q, growing ARR by \$1.1m to \$20.6m (+24% vs. pcp), with churn reducing from 7.3% to 4.4% over past 2 QTR's.

EVS Water's ARR was flat across the QTR as the sales cycle remains long for Utilities. EVS now has reference sites in all its key regions which should improve its pipeline conversion in FY24 and beyond.

Overall, we maintain a Buy rating with a target price of \$0.17 (prev: \$0.19). We estimate FCF exit run-rate is achieved by Jun'24. Our core thesis comprises:

Premium software offering with predictive modeling capability across key environmental parameters. **ESG software moving from 'nice to have' to 'must have'** for compliance + social license to operate. **Strong organic growth with improving revenue quality** from higher-margin software sales across a diverse global customer base.

Y/E JUN 30	2022a	2023e	2024e	2025e
Sales	53.5	58.0	66.4	76.1
Sales Growth	10.1%	8.5%	14.4%	14.6%
EV/Sales	0.0x	0.0x	0.0x	0.0x
EBITDA	(4.0)	0.3	4.8	10.0
EV/EBITDA	0.0x	0.0x	0.0x	0.0x
FCF	(11.6)	(7.8)	(3.2)	2.1
Core EPS (Diluted) (c)	(1.0)	(0.5)	(0.1)	0.2

All figures are in AUD.

YE Jun (\$A)	FY22a	FY23e	FY24e	FY25e	FY26e	23-26 CAGR
ARR						
Aviation	34	36	38	41	43	
Omnis	18	22	27	33	39	
Water	1	1	2	5	10	
ARR	53	59	68	79	92	16%
ARR Growth	7	6	8	11	13	
P&L						
Aviation	31	34	35	37	40	6%
Omnis	13	16	20	25	30	25%
Water	0	1	1	3	6	111%
Group Software Revenue	44	50	57	66	76	15%
Hardware & Service Income	10	8	10	10	11	12%
Group Net Revenue	53	58	66	76	87	15%
Growth	10%	9%	14%	15%	15%	
Software Share	82%	86%	86%	87%	87%	
Gross Profit	26	30	38	47	58	
Gross Margin	48%	52%	57%	61%	66%	
Opex	(30)	(30)	(33)	(37)	(40)	
Opex/Sales Growth	1.6x	0.1x	0.7x	0.8x	0.7x	
EBITDA	(4)	0	5	10	17	
EBITDA Growth	(12%)	(107%)	1604%	111%	72%	
D&A	(8)	(7)	(6)	(6)	(7)	
EBIT	(12)	(6)	(1)	4	10	
EBIT Margin	(23%)	(11%)	(1%)	5%	12%	
Net Interest	(0)	(0)	(0)	(0)	(0)	
Tax	(0)	0	-	-	-	
NPAT	(13)	(7)	(1)	3	10	
EPS (cps)	(1.02)	(0.54)	(0.10)	0.25	0.73	
FCF	(12)	(7.8)	(3.2)	2.1	7.9	

Envirosuite Limited (EVS)

Market Cap: \$119.6m

Stock Price: \$0.09

Target Price: \$0.17

Buy

Y/E JUN 30

PROFIT & LOSS (\$)	2021A	2022A	2023E	2024E	2025E
Revenue	48.6	53.5	58.0	66.4	76.1
<i>Growth</i>	103.6%	10.1%	8.5%	14.4%	14.6%
Gross Profit	21.0	25.6	30.2	37.5	46.6
<i>Margin</i>	43.3%	47.9%	52.0%	56.6%	61.3%
EBITDA	(4.5)	(4.0)	0.3	4.8	10.0
<i>Margin</i>	(9.2)%	(7.4)%	0.5%	7.2%	13.2%
Dep'n & Amort.	(7.0)	(8.2)	(7.2)	(5.7)	(6.4)
EBIT	(11.5)	(12.1)	(6.9)	(0.9)	3.7
Net interest Expense	(0.3)	(0.2)	(0.3)	(0.4)	(0.4)
Profit Before Tax	(11.8)	(12.3)	(7.2)	(1.3)	3.3
Tax	(0.5)	(0.4)	0.3	0.0	0.0
<i>Tax Rate (%)</i>	4.0%	3.3%	(4.8)%	(0.0)%	(0.0)%
NPAT (Underlying)	(12.2)	(12.7)	(6.9)	(1.3)	3.3
<i>Growth</i>	(8.1)%	4.1%	(46.2)%	(80.4)%	(342.4)%
NPAT (Reported)	(12.5)	(13.2)	(8.2)	(1.3)	3.3
EPS Underlying (Diluted) (c)	(1.1)	(1.0)	(0.5)	(0.1)	0.2
<i>Growth</i>	(50.2)%	(10.5)%	(47.1)%	(80.7)%	(338.5)%
Free Cash Flow	(13.9)	(11.6)	(7.8)	(3.2)	2.1
BALANCE SHEET (\$)	2021A	2022A	2023E	2024E	2025E
Cash	17.6	16.3	8.3	5.1	7.2
Current Receivable	11.6	12.4	13.4	14.5	15.7
PPE	6.3	5.2	7.7	7.9	8.4
Intangibles	19.4	19.1	19.9	22.7	25.7
Goodwill	89.5	89.6	89.5	89.5	89.5
Other	5.4	8.1	9.7	10.1	9.8
Total Assets	149.8	150.7	148.5	149.8	156.3
Current Payables	8.0	8.5	11.0	12.4	14.2
Debt	0.0	0.0	0.0	0.0	0.0
Unearned Revenue	2.7	4.1	6.0	7.2	8.7
Other	11.9	12.5	13.8	13.8	13.8
Total Liabilities	22.5	25.0	30.7	33.4	36.7
Net Assets	127.3	125.7	117.7	116.4	119.7
Equity & Reserves	181.4	191.4	191.4	191.4	191.4
Retained Profits	(54.1)	(65.7)	(73.7)	(75.0)	(71.7)
Shareholders' Equity	127.3	125.7	117.7	116.4	119.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	127.3	125.7	117.7	116.4	119.7
CASHFLOW (\$)	2021A	2022A	2023E	2024E	2025E
EBITDA	(4.5)	(4.0)	0.3	4.8	10.0
Net Interest	(0.0)	0.0	(0.2)	(0.4)	(0.4)
Tax	(0.5)	(0.5)	(0.2)	0.0	0.0
Δ in Working Capital	(5.8)	1.1	2.7	1.2	2.3
Other	0.7	(1.8)	(2.4)	0.0	0.0
Operating Cash Flow	(10.0)	(5.1)	0.3	5.6	11.9
<i>Growth</i>	(10.9)%	(49.5)%	(106.6)%	1,558.4%	114.7%
Capex	(3.9)	(6.5)	(8.1)	(8.8)	(9.8)
Acquisitions	(5.6)	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(9.5)	(6.5)	(8.1)	(8.8)	(9.8)
Equity Raised	13.1	10.1	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(0.1)	0.1	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	13.0	10.2	0.0	0.0	0.0
FX / Non Cash items	(0.3)	0.0	0.4	0.0	0.0
Change in Cash	(6.7)	(1.3)	(7.4)	(3.2)	2.1
Free Cash Flow	(13.9)	(11.6)	(7.8)	(3.2)	2.1

VALUATION SUMMARY

Market Cap	\$119.6m
Shares on issue	1,285.8m
Stock Price	\$0.09
Target Price	\$0.17
Estimated Total Return - 12 Mth	80.4%
12 Mth Fwd Dividend Yield	0.0%

VALUATION RATIOS

	2021A	2022A	2023E	2024E	2025E
Sales	48.6	53.5	58.0	66.4	76.1
<i>Growth</i>	103.6%	10.1%	8.5%	14.4%	14.6%
EV/Sales (x)	0.0x	0.0x	0.0x	0.0x	0.0x
EBITDA	(4.5)	(4.0)	0.3	4.8	10.0
EV/EBITDA	0.0x	0.0x	0.0x	0.0x	0.0x

PERFORMANCE RATIOS

	2021A	2022A	2023E	2024E	2025E
ROIC	(9.3)%	(9.7)%	(5.4)%	(1.1)%	2.6%
Net Debt (Cash) (\$m)	(17.6)	(16.3)	(8.3)	(5.1)	(7.2)
Working Capital	3.4	2.2	(0.5)	(1.7)	(4.0)
Working Capital/Sales (%)	6.9%	4.2%	(0.9)%	(2.6)%	(5.3)%

CASH FLOW METRICS

	2021A	2022A	2023E	2024E	2025E
Free Cash Flow Yield (%)	(13.8)%	(11.5)%	(7.7)%	(3.1)%	2.2%
Capex/Sales (%)	(7.9)%	(12.2)%	(14.0)%	(13.2)%	(12.9)%

MARGINS

	2021A	2022A	2023E	2024E	2025E
GPM	43.3%	47.9%	52.0%	56.6%	61.3%
EBITDA	(9.2)%	(7.4)%	0.5%	7.2%	13.2%
EBIT	(23.7)%	(22.7)%	(12.0)%	(1.4)%	4.8%
NPAT	(25.2)%	(23.8)%	(11.8)%	(2.0)%	4.3%

VALUATION METHODOLOGY

WACC	10.25%
Discounted Cash Flow Valuation/Share	\$0.17
Sum-of-the-Parts Valuation/Share	\$0.17
Average Valuation/Share	\$0.17
Target Price	\$0.17

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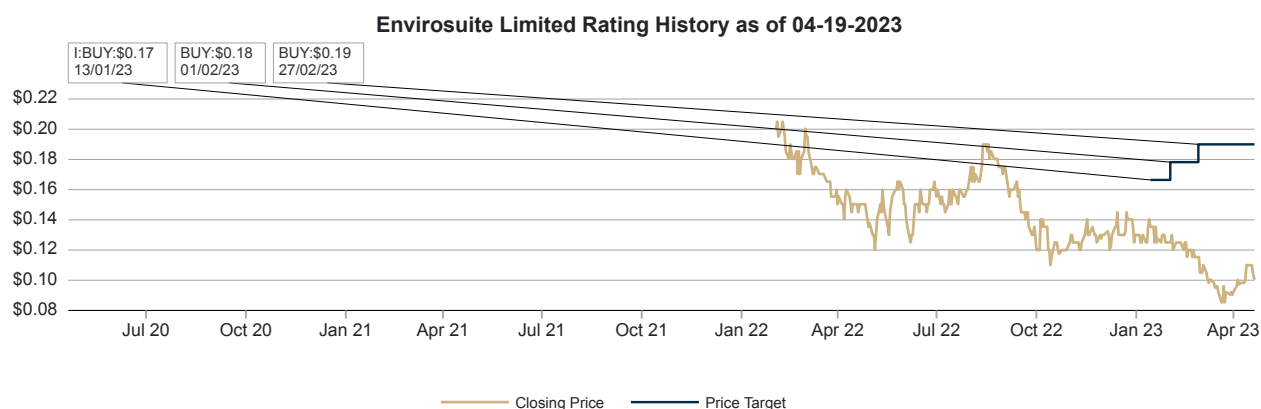
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