

Nitro Software Limited (NTO)				CASE:	BASE	DATE:	16/03/2021			
The Story										
Nitro is the upstart micro competitor to Adobe and DocuSign, playing for a small slice of the massive US\$28b market to make big returns for its owners. The move from Perpetual licences to Subscriptions is masking real revenue growth rates of 30%+ and it's addition of E-Sign capabilities offered for free during Covid should provide additional growth opportunity as it provides a well rounded paperless, remote work supporting document system right when demand for it is spiking. Provided it can retain and grow it's appeal to users it should be able to take a modest 1%+ stake in the market and with 90%+ margins provide significant operating leverage to generate high cashflows as it reaches scale. Founder lead and massive insider ownership provide shareholder aligned, innovative and motivated leadership to continue to grow at high rates for many years to come.										
The Assumptions										
What	Base Year	Terminal Year	Link to story							
LTV (\$m)	167.3	3015.0	Expect churn rates of no more than 10% long term on 94%+ GM%							
Revenue	13.7%	5.0%	Current growth muddied by Perpetual licence to SAAS revenue rotation, expect high growth							
Gross Margin %	90.6%	94.2%	SAAS revenue growing as % to 100% by 2025 and has higher GM%							
EBITDA Margin %	-14.8%	53.8%	Operating leverage and high GM% growing EBITDA% as it reaches scale							
Tax	1.5%	27.5%	Australia based							
Capital Spend	176	519	Minimal, R&D is expensed							
Share Count Changes	198,850	267,238	3% growth based on ESOP - high propensity to use share based compensation							
Discount% : EV/EBITDA	11.0%	20.00	Average to high risk but high growth							
The Cash Flows (US\$'000)										
Year	Dilution	LTV	Revenue	Gross Margin	%	EBITDA	%	Tax	Capex	FCFF
1	198,850	191	45,993	42,254	91.9%	- 1,891	-4.1%	- 520	200	- 1,571
2	204,816	342	51,938	48,466	93.3%	- 1,028	-2.0%	- 283	220	- 965
3	210,960	543	74,790	69,865	93.4%	10,514	14.1%	2,891	242	7,381
4	217,289	787	102,525	95,876	93.5%	26,328	25.7%	7,240	266	18,821
5	223,808	1,103	135,463	126,814	93.6%	46,724	34.5%	12,849	293	33,582
6	230,522	1,495	172,274	161,447	93.7%	70,885	41.1%	19,493	322	51,070
7	237,438	1,959	210,557	197,535	93.8%	97,050	46.1%	26,689	354	70,007
8	244,561	2,481	246,926	231,901	93.9%	122,739	49.7%	33,753	390	88,596
9	251,898	2,732	277,361	260,762	94.0%	144,872	52.2%	39,840	429	104,603
10	259,455	2,871	297,833	280,307	94.1%	160,140	53.8%	44,038	472	115,630
Terminal	267,238	3,015	319,816	301,316	94.2%	172,142	53.8%	44,085	519	127,538
The Value (US\$'000)										
Terminal Value (Diluted)			2,561,801	Cashflows discounted for dilution						
PV (Terminal Value)			829,960							
PV (FCFF of next 10yrs)			182,593							
Value of Operating Asset			1,012,553							
Adjustment for Distress			- 50,628	Failure Probability = 5% Strong cash position, close to operating cash positive, growing fast						
Adjustment for Future Options			-	Option Case = 0%, expanding range and market opportunity factored in sales growth						
- Debt & Minority Interest			-	Future acquisitions (likely) are expected to be per share value accretive to at least the discount rate, so are ignored for both cash flow and share count purpose.						
+ Cash & Equivalents			43,749							
Value of Equity			1,005,675							
Value per share (Base Currency)			\$ 5.06	Insider Holding%: 40.62%; 23p Remuneration Report; GlassDoor: Rec 88%, CEO 97%						
FX Rate			0.800	Current Price	%	PV of LTV (less Opex) in 2030 = \$4.05 (back of envelope shows value)				
Value per share (A\$)			\$ 6.32	\$ 2.63	140%	Current price on a pull back from 52wk high of \$3.66				
<i>Source: Methodology and Format are based on that done by Aswath Damodran (see: aswathdamodaran.blogspot.com)</i>										
<i>Disclaimer: Valuation is not to be relied on as financial advice of any sort and is prepared for personal use of the author only.</i>										