Research as a Service

Comms Group Limited

Initiation Report

Global revenue growth is calling

IT Services & Software

20 March 2023

Comms Group Ltd (ASX:CCG) operates in the broad IT and communication space both domestically and offshore. Domestically, CCG provides a full range of IT and communication services in the highly fragmented MSP/ICT market, a sector expected to grow on the back of digitalisation, an increasingly remote workforce, the need for cyber security, and increasing complexity. Internationally, CCG is a niche player in the provision of corporate voice solutions for enterprises with an established, capital-light network particularly strong in the Asia Pacific. CCG also provides voice solutions for Microsoft Teams calling, the largest meetings provider in the world with ~280m monthly users, but only ~12m-15m using the voice-calling option currently. Recent wholesale deals with the likes of Vodafone (UK) will only accelerate market penetration. CCG has established a business structure with a scale that can be built upon across its three divisions, a financing facility to fund growth, and a goal to double revenue medium-term. There are a number of historical M&A deals and current ASX-listed peers in the MSP/ICT space that suggest CCG represents value at current prices.

Business model

CCG operates three largely independent divisions, but all operate in the broad communications space. The Global division is a niche player in the corporate voice market, predominantly offering wholesale solutions for users of Microsoft Teams across the Asia Pacific. The SME Telco division is essentially a telco service provider to Australian corporates with under 500 employees, while the ICT Services division provides ICT managed services to mid-tier Australian corporates.

Global voice partnerships promise a step-change in revenue

The global network (with particular strength in the APAC) and corporate voice expertise established by CCG over the past 10-years has set-up the company for a step-change in organic revenue growth in its Global division. Wholesale partnerships with the likes of Vodafone and a UCaaS (Unified Communications as a Service) supply partnership with Microsoft Teams should see at least high single-digit revenue growth over the medium-term for Global. The SME Telco and ICT Services divisions are expected to deliver more subdued growth via cross-sell and service expansion opportunities but be a key contributor to profit and cash-flow. From the current ~$52m revenue base, management has a $100m medium-term group revenue target from a combination of organic growth and acquisitions.

Valuation of $0.16/share or $60m market cap fully-diluted

Both a DCF and peer multiple valuation are suitable for CCG. From a peer multiple perspective using FY23 consensus estimates CCG is trading at a 5% discount to the average listed (profitable) peers (6.4x EV/EBITDA). An in-line multiple would imply a share price of $0.07/share despite FY23 including little Vodafone revenue but the associated start-up costs. Recent M&A multiples (8.1x EV/EBITDA) would imply a share price of $0.091/share. From a DCF perspective, CCG is profitable and has transparency around expected divisional revenue growth rates, gross margins, and cost growth. Our DCF is $0.16/share, driven by stable gross margins, growth in Microsoft Teams phone connections (including Vodafone) and cross selling opportunities. As a sense check our DCF implies an FY25 PER of 13.0x and EV/EBITDA of 8.8x based on our estimates.

Historical earnings and RaaS' estimates (in A$ unless otherwise stated)

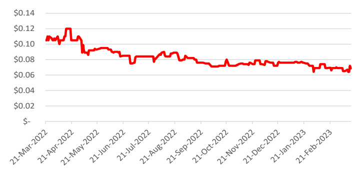
Year end	Revenue	Adj. EBITDA	Adj. NPATA	Adj. EPS	P/E (x)	EV/EBITDA (x)	EV/EBIT (x)
06/22a	41.3	3.7	2.4	0.011	5.9	7.9	10.2
06/23f	51.9	5.1	2.2	0.011	6.3	6.1	7.9
06/24f	55.2	6.0	2.8	0.012	5.6	4.9	6.2
06/25f	58.4	6.7	3.5	0.013	5.1	4.0	4.9

Source: FY22 actual, RaaS estimates FY23f, FY24f and FY25f

Share Details

ASX code	CCG
Share price	$0.068
Market capitalisation	$25.4M
Shares on issue	379.0M
Net debt at 31-Dec-22	$7.4M
Free float	39%

Share Performance



Upside Case

- Microsoft Teams and wholesale voice services uptake of voice telephony across APAC
- Additional product/services revenue across SME and ICT
- Complementary acquisitions

Downside Case

- Competition from new telephony products
- Loss of key SME/ICT contracts
- Integration of acquisitions

Board of Directors

John Mackay	Non-Executive Chair
Peter McGrath	Executive Director/CEO
Claire Bibby	Non-Executive Director
Benjamen Jennings	Non -Executive Director
Ryan O'Hare	Non-Executive Director

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Comms Group Ltd

Comms Group Limited (ASX:CCG) listed on the ASX in December 2017, raising $7.5m at $0.25/share for payment of acquisitions and associated working capital. Following a period of restructuring, including management and board changes, CCG returned to acquisition mode in January 2021, acquiring four more businesses and establishing three distinct trading divisions, Global, SME Telco and ICT Services. We forecast modest growth but good cash-flow generation from the SME and ICT divisions, and solid growth from the Global division as new wholesale agreements with the likes of Vodafone for the provision of voice for Microsoft Teams, as well as other wholesale voice services to CCaaS telcos and other wholesale customers, begin to contribute.

Investment Case

CCG has established a strong earnings base from which to expand organically and via acquisition. Consider the following:

- Management has forecast pro-forma FY23 revenue at $50m+ and EBITDA of $5.0m+ despite some start-up costs associated with Vodafone being included in EBITDA, providing a solid base from which to build on.
- Significant growth is expected in the Global division, with management divisional valuation assumptions in FY22 assuming at least 8% medium-term revenue growth. This growth is driven by UCaaS wholesale deals for Microsoft Teams into the likes of Vodafone and KDDI, and other CPaaS deals, with FY24 likely to be the first material year given a soft launch in October 2022.
- CCG is piggy-backing Microsoft Teams in the Asia Pacific, the most popular meetings tool worldwide with 280m monthly users in Q2 FY23 according to Microsoft, up from just 2m active daily users in 2017. With only ~12m-15m Teams calling users currently and the recent introduction of Teams Phone Mobile there is ample growth for UCaaS Teams voice solution providers like CCG.
- The SME Telco and ICT Services divisions offer more modest growth but recurring revenue of ~95% under three-year+ contracts provides some revenue/earnings security. There is upside from cross-selling, an extension of services offered, and strengthening regional positions in the key states of NSW, VIC and QLD.
- CCG is trading at a 5% discount to the (profitable) peer average using FY23 EV/EBITDA multiples based consensus estimates. A multiple equal to the peer average would see CCG trade at a share price of $0.07/share. Recent M&A multiples (8.1x EBITDA) imply a share price closer to $0.091/share.
- Key management are incentivised by both tenure and the share price reaching and maintaining levels between $0.125/share and $0.20/share medium term. This implies a minimum of 95% share price upside should performance hurdles be met.

DCF Valuation $0.16/share (Market Cap of $60m)

Both the discounted cashflow and peer multiple methodologies are an appropriate method for valuing CCG given a profitable earnings base, divisional transparency, and range of similar businesses listed currently or previously on the ASX . Our fully diluted DCF valuation is $0.16/share, which for conservatism assumes lower-than-sector forecast growth in both SME Telco and ICT Services, but solid growth from the Global division piggybacking off the calling uptake for Microsoft Teams. $0.16/share implies an FY25 PER of 13.0x and EV/EBITDA of 8.8x.

Acquisition History

IPO

CCG listed in December 2017 under the name Commschoice, raising $7.5m in new capital at an issue price of $0.25/share. The IPO brought together five businesses under the new entity, namely Commschoice, Telaustralia, Woffle, Oracle Telecom, and the Telegate Group based in Singapore. The funds raised were predominantly for the payment of acquisitions and related working capital.

The business underwent restructuring and a number of management changes before acquisitions resumed in January 2021.

More recent acquisitions

Upon fine-tuning strategy and internal structures, CCG returned to acquisition mode in January 2021, making the first of four key acquisitions which are detailed below.

- Telco service provider Next Telecom, which was acquired through the issue of 71.0m shares to vendors at an issue price of $0.094/share ($6.7m). A separate capital raise was conducted to fund the acquisition and related working capital via the issue of 78.1m shares at $0.08/share to raise $6.25m.

  Next Telecom now forms the basis of the SME Telco division, continuing to provide medium-sized corporates with NBN, corporate fibre, cloud IP telephony, managed IP services, and security products.

- SME telecommunications provider Binary Networks, which was acquired for $1.4m in cash and $0.3m in scrip for services rendered.

  Binary's products and services include hosted PBX, SIP trunks, VoIP systems and handsets, fibre, NBN and networking equipment, and is now part of the SME division. Binary provides the group a layer-two aggregation network with POP's in Sydney, Melbourne, and Brisbane as well as a layer -three ISP network allowing the group to lower the cost and increase the functionality of data and internet offerings.

- SME telecommunications provider Switched On, which was acquired for $3.7m cash and an earn-out of $0.5m (paid September 22), implying an EBITDA multiple of 3.7x.

  Switched On is now part of the SME division and provides voice and data solutions, mobile services, business phone system installation and maintenance, and managed IT support services to smaller SME customers.

- Mid-market ICT service provider onPlatinum, which was acquired for $12m comprising $8.0m cash up front, $2.0m in scrip upfront at an issue price of $0.105/share (19m shares), and $1m in both deferred cash and scrip. Pro-forma EBITDA of $2.0m implied an acquisition multiple of 6.0x EBITDA.

  OnPlatinum is now the ICT division within CCG with products and services including managed services, the provision of hardware, security services, desktop as a service, Windows cloud services, WAN maintenance and services, and SD-WAN offerings.

Exhibit 1: Summary of recent CCG acquisitions

Business	Date	Purchase details	Pro-forma sales ($m)	Pro-forma EBITDA/EBITDA multiple
Next Telecom	29-Jan-21	$1.7m cash + $6.7m scrip @ $0.0942c	15.5	$1.5m / 5.6x
Binary Networks	1-Apr-21	$1.4m cash + $0.3m scrip (SBP)	2.1	$0.4m / 4.3x
Switched On	31-Aug-21	$4.2m cash (initial + earnout)	2.6	$1.0 / 4.2x
onPlatinum	11-Feb-22	$8.0m cash + $2.0m scrip @ $0.105c +$2m deferred	16.0	$2.0m / 6.0x

Source: Company announcements

CCG Divisional Breakdown

CCG has three operating segments as required by AASB 8, Global, SME Telco and ICT Services (discussed separately below). Customers with similar and primary telecommunications needs are allocated to either the Global or SME division based on their size and customer type. The ICT division represents the recent onPlatinum acquisition.

The divisions are managed by dedicated resources with each having its own CEO, monthly and yearly budget, and board reporting responsibilities.

Global

Specialist UCaaS and CPaaS provider of ‘corporate voice’ solutions to wholesale, enterprise, and global multinationals (>1,000 employees).

Global uses its cloud-based global business phone platform to provide global Microsoft Teams telephony calling as a fully managed UCaaS service for corporate customers across multiple regions, delivered on one invoice. The Global division has built its global telephony platform via partnerships utilising third-party hardware and software.

Solutions include SIP trunks in various regions, call termination services, global DID’s/telephone numbers provisioning, and 24/7 global NOC and support.

The recent Vodafone contract (discussed later) is an example of this expertise winning wholesale supply deals with large corporates for the APAC region.

We estimate CCG has 120 wholesale/enterprise customers with an estimated Average Revenue Per User (APRU) of $8k/month (albeit with a significant range), and average contract term of 36-48 months.

Exhibit 2: CCG global network

Source: CCG H1 FY23 result presentation (Pg 17)

SME Telco (small-medium enterprises)

For CCG, SME refers to small-to-medium enterprises typically with up to 500 employees in Australia.

The SME Telco division provides services including NBN, corporate fibre, cloud IP telephony, security products, voice and data solutions, mobile services, business phone installation and maintenance, and general support services.

The SME Telco division operates under the Next Telecom brand in NSW and VIC and includes the acquired businesses of Next Telecom, Binary Network and Switched On, together with customers from the original Comms Choice business.

We estimate the SME division has ~5,100 customers with an ARPU of ~$400/month.

ICT Services (information and communications technology)

The ICT Services division represents the business of onPlatinum, acquired in February 2022 trading under the onPlatinum name and headquartered in south-east Queensland.

ICT refers to information technology (IT) services as well as communication services, with the ICT division essentially supporting the ICT needs of corporate customers with a focus on innovation and long-term relationships.

OnPlatinum is based in the Gold Coast and Sydney, providing CCG with entry into Queensland, and at the time of acquisition had ~450 customers with an ARPU of ~$3k/month, predominantly on three-year+ contracts. Revenue was split between MSP (54%), cloud (25%), data (11%), and voice (10%).

Partners include AWS, HP, Microsoft, VMWare, Cisco, MP1, NextDC, and Kyocera, and the business owns its own Cloud Compute nodes (VMWare) in Sydney and Queensland.

CCG Strategy By Division

CCG has three distinct divisions with varying strategic plans over the next few years. As a group management have set a goal of achieving $100m in revenue medium-term with commensurate increase in profitability.

In Global:

- Cement key wholesale and carrier provision of UCaaS services and CPaaS services (call termination and local voice) throughout the APAC region and globally;
- Ensure networks are fit for purpose. The group has recently installed six new SuperPops or Points of Presence for extended network reach as an example; and
- Deliver on the Vodafone and KDDI opportunities.

In SME Telco:

- Grow to scale both organically and via acquisition;
- Expand existing operations in NSW and VIC; and
- Increase the service offerings to existing customers, and in particular ICT services, growing ARPU.

In ICT Services:

- Extend the service offering to become a full-service ICT player;
- Grow to scale both organically and via acquisition including offering cloud telco services; and
- Expand QLD footprint with a move into Brisbane, and strengthen current NSW position.

A summary of key divisional metrics is listed in the table below.

Exhibit 3: CCG divisional summary

Division	FY23 revenue $m (f)	Customer no.	ARPU/mth ($)	GP%	FY23 EBITDA* $m (f)
Global	11	120	7,638	47	1.1
SME	25	5,100	408	42	3.8
ICT	16	450	2,962	53	1.8
Corporate					-1.6
TOTAL (including corporate)	52	5,670	765	47	5.1

Source: Company announcements and RaaS estimates; * Pre-corporate costs for divisions

The Australia MSP/ICT market

Market size and growth

According to Precedence Research, the global managed services market was valued at US$312b in 2022, with the US representing 33% or US$105b, and is projected to reach US$757b by 2030, implying CAGR growth of 12.6%. Large enterprises represent 61% and SMEs 39%.

In another study, Spherical Insights and Consulting estimated a global value of US$239b in 2021, and expected to reach US$680b by 2030, representing CAGR growth of 13.8%.

For an Australian perspective, Technetics Consulting estimates a market value of A$34b in 2022, rising to $44.3b by 2025, or 9.2% CAGR.

This growth, be it in the US, Europe, Asia or Australia, is being driven by MSPs supplementing existing IT departments with expertise across a range of emerging technologies including digitalisation, cloud, cyber security, remote working under a hybrid work environment, and the management of networks from a single pane of glass.

Market players

A search of MSP directory provider Cloudtango (https://www.cloudtango.net/) reveals at least 100 MSP/ICT providers across Australia. Globally, the MSP Alliance estimates there are over 150k players.

Ranging from founder-owned, single state-based businesses to internationally-owned, national providers such as Accenture, Capgemini and Infosys, the sector is extremely fragmented across a wide range of services despite significant consolidation in recent years. ICT/MSP providers essentially replace and/or supplement the IT department within a corporate, particularly in new technologies and highly specialised functions.

On Cloudtango you can search for service providers across application development, cloud migration, DaaS, Dynamics 365, GCP, identity management, Microsoft 365, private cloud, Sharepoint, AWS, colocation, data storage, ecommerce, hosted exchange, IT consulting, networking and wi-fi, Quickbooks. UCaaS, Azure, CRM, DevOps, email security, hyper-convergence, managed IT, OpenStack, SD-WAN, virtualisation, backup and recovery, cybersecurity, domain hosting, ERP, IaaS, managed printing and PaaS, server management, VoIP and web development.

Each provider has technology partners across key categories such as cloud, security, and SD-WAN whose products (hardware and/or software) they resell and provide support to their customers.

The ICT/MSP providers typically derive revenue by charging out staff at an hourly rate, together with commission earned on partner resales across a wide variety of solutions. If the work is consistent enough such fees are often bundled up into a contracted monthly fee or retainer, which is predominantly the case for CCG.

ASX listed players include CCG, Spirit Technology (ASX:ST1), Activeport (ASX:ATV), Cirrus Networks (ASX:CNW), and Vonex (ASX:VN8).

Previously listed players who have been acquired by large multinational players include DWS group (by Indian-based HCL Technologies), RXP Services (by French-based Capgemini), and Empired (by French-based Capgemini).

Common problems for MSP providers

Listed peer and competitor Spirit Technologies (ASX:ST1) is a good case study in what can go wrong operationally in the MSP space, summarised in its FY22 result presentation (page 5).

- Complexity and breadth of product sets, customer sizes, vendors and systems straining delivery and support to maintain customer experience;
- Underperformance from some products…resulting in churn plus sales and operational effort to remediate;
- Supply chain delays coupled with inflationary pressure on equipment and labour reducing contracted margins; and
- Sales team rebuild and churn impacting deal flow and customer experience.

UCaaS Explained

The term Unified Communications as a Service (UCaaS) has been around a while and is essentially an 'out-of -the-box', pre-determined one-stop communication offering from a single cloud-based platform. According to Gartner, to be considered UCaaS the platform needs to offer:

- Enterprise telephony;
- Meeting solutions (audio, video, and web conferencing);
- Unified messaging;
- Instant messaging and presence (personal and team);
- Mobility; and
- Communications-enabled business processes.

UCaaS infrastructure is owned, operated, maintained, and delivered by the provider. The provider delivers applications from a common platform that does not require APIs and licenses the service for a monthly, recurring, subscription charge.

Leading global providers include Microsoft Teams, Cisco Webex, Zoom, Nextiva, Ring Central, Vonage, and 8x8.

The chart below summarises a typical UCaaS offering.

Exhibit 4: A typical UCaaS offering

Source: Avaya website

CPaaS Explained

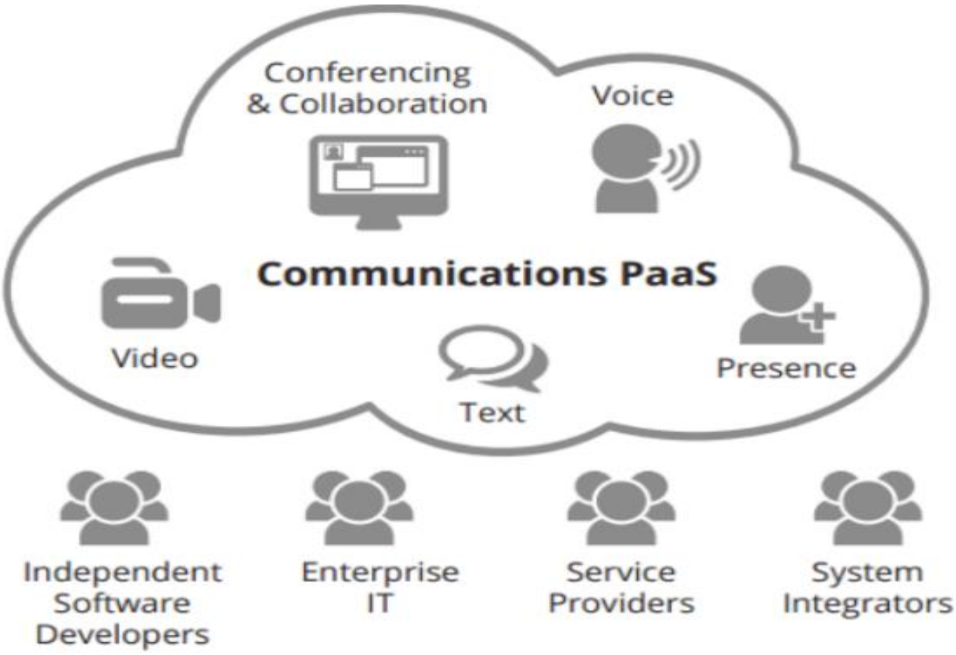
CPaaS is a newer concept that allows larger purchasers of wholesale telco services (e.g. contact centres, Windows, Uber and Google) to pick and choose their communications stack and integrate them into their existing communication platforms with the use of cloud-based middleware such as APIs and SDKs without the need to build a new back-end. Users can leverage specialist CPaaS providers, who can provide ready to employ solutions with a level of technical support.

An example of CPaaS is a new chat box product integrated into an existing instant messaging product.

As the chart below demonstrates service providers and systems integrators are used externally to implement enterprise software to an existing communication stack.

Large CPaaS providers include Webex Connect (Cisco), Azure (Microsoft), Sinch, Amazon Chime SDK, Alcatel-Lucent Enterprise Rainbow, and Twilio.

Exhibit 5: CPaaS in diagram



Source: Genband.com

Microsoft Teams and CCG

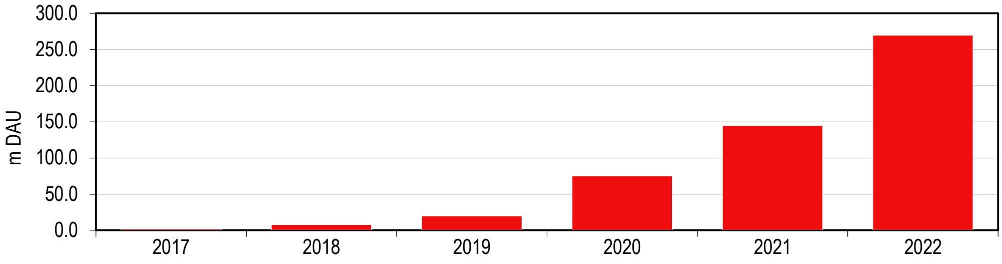
CCG has a particular expertise in providing voice telephony solutions as part of the Microsoft Teams UCaaS solution for PSTN users (Public Switched Telephone Network) in the APAC region.

According to Statista, Microsoft Teams was the most popular meeting provider for companies worldwide in 2022, with 55.4% of companies using the tool, just ahead of Zoom (52.3%), Microsoft Skype for Business (34.4%), and Cisco Webex Meetings (33.8%).

Daily usage of Microsoft Teams has grown exponentially in recent years, from just 2.0m daily users in 2017 to 270m in 2022, and exceeding 280m monthly users during Q2 FY23, taking share across every category from collaboration to chat to meetings to calling. Paid office 365 commercial seats were +12% in Q2 FY23 to an estimated 360m seats.

All 365 plans allow Teams users to make calls while 80% of enterprise customers use five or more 365 applications. More than 100 organisations have >100k users while >3,000 organisations have >10k users.

Exhibit 6: Number of daily active users of Microsoft Teams worldwide 2017-2022



Source: Statista

In recent earnings calls Microsoft disclosed 12m PSTN (Public Switched Telephone Network) users at July 2022, which is likely to be closer to 15m in December 2022 following comments that PSTN users had nearly doubled from the pcp. In the Q1 FY23 call Microsoft noted PSTN users had grown by double digits for five quarters in a row.

CCG essentially provides the interface between Teams and the PSTN for their wholesale clients, and the low but growing penetration of Teams calling suggests significant growth ahead for Teams UCaaS voice solution providers such as CCG. Accessing the PSTN for calls improved the quality and security of calls as they are routed over the carrier networks, not the internet, and calls are prioritised over data.

The next leg of Teams calling growth is likely to come from Teams Phone Mobile (previously called Operator Connect Mobile), allowing the integration of mobile devices with Teams for easier calling and collaboration. Teams Phone Mobile enables anywhere access to Teams all via a single, business-provided number for both mobile and desktop devices.

Verizon is the first US carrier to offer the service with the offering summarised below: https://www.verizon.com/business/products/voice-collaboration/collaboration-platforms/unified-mobile-for-microsoft-teams/.

Solutions currently offered by CCG for Teams includes:

- Direct routing;
- Contact centre (native for teams);
- Call recording; and
- Call analytics (measures call sentiment, AI-driven speech analytics).

In March 2022 CCG announced a partnership with Vodafone in the UK to supply Microsoft Teams calling, SIP trunking and call recording/reporting. Details of this deal are presented below.

Vodafone and CCG

The offering went live in October 2022 following the signing of the contract in March 2022. Vodafone is an example of wholesale UCaaS, meaning it is part of Vodafone's customised Teams offering to its own customers.

CCG will provide advanced orchestration and automation capabilities to automate many processes, with solutions including Microsoft Teams calling (direct routing), SIP trunking, and value-added services (including call recording, call reporting, contact centre and Teams-to-text messaging).

Keys to the contract include:

- Initial three-year term then renewable annually;
- Revenue for CCG will be based on the number of users onboarded; and
- We forecast CCG can achieve divisional GP margins of 50% on this revenue, with EBITDA margins >20% after the costs of dedicated resources.

In its H1 FY23 result presentation the Vodafone Business division revealed:

- >6m customers worldwide with 150m+ connections;
- Business represents 28% group revenue;
- For unified solutions the group has 140k customers and 5.7m users; and
- A perceived competitive advantage across network infrastructure, product development, scalable platforms, and access to partners.

Key CCG Financials

Revenue

Contracted revenue represents ~95% of total revenue and is recognised over the term of a contract. CCG essentially delivers hosted voice, data and enterprise network, and cloud-based communication enablement services directly to customers or via wholesale arrangements with the likes of Vodafone.

In FY22 wholesale represented 14% of revenue with the balance direct to customer. Key divisional revenue assumptions include:

Global

- **Strong medium-term growth forecast**. The business unit analysis in the FY22 Annual Report (page 42) highlights management expectations for high single-digit revenue growth medium-term (five years), well above the expectations for SME and ICT.
- **Vodafone**. A later-than-expected launch of the Vodafone Teams collaboration should see the first material revenue benefits in FY24. Our five-year forecasts assume Vodafone Business Teams users globally to reach 300k, which is only ~5% of the current Vodafone Unified customer base.
- **KDDI**. There is not enough data points currently to make an adequate assessment of the KDDI potential.

SME Telco

- **Moderate medium-term growth forecast**. Again, using the business unit analysis in the FY22 Annual Report as a guide to management expectations, medium-term (five-year) revenue growth expectations are around 3% per annum in-line with normalised inflation expectations.
- **Service and brand expansion Vs churn and competition.** The SME space is a constant balance between customer churn resulting from a competitive environment against opportunities in expanding brand reach in existing regions/state and the selling of new services (ARPU).

ICT Services

- **Full 12 months from onPlatinum in FY23**. Having contributed $6.7m over four months in FY22 we forecast $16m revenue in FY23 as the group contributes for a full 12 months.
- **Synergies to ramp-up in H2 FY23.** With earn-out clauses expiring in December 2022, cost and revenue synergies from the onPlatinum acquisition are expected to ramp-up in H2 FY23.
- **Solid underlying growth expected.** Again, using the business unit analysis in the FY22 Annual Report as a guide to management expectations, medium-term (five-year) revenue growth expectations for ICT are around 5% per annum.

Gross profit margin

Gross profit margins vary significantly depending on division, and are summarised below:

- **Global**. Management assumptions for the business unit analysis assumed a gross margin for Global of ~54%. We have an assumption closer to 47% as wholesale revenues increase as a percentage of the total mix.
- **SME Telco**. Management assumptions for the valuation of business units assumes a gross margin for SME of ~42%. The prospect of additional services and scale are offset by a competitive trading environment and likely to see flat gross margins over time.

- **ICT Services**. Management assumptions for the valuation of business units assume a gross margin for ICT of ~51%. Again, the additional services and increased scale are likely to be countered by competition, resulting a flat gross margin over time.

Key COGS that influence gross margin are the direct costs incurred to buy services from other telcos that are then on-sold to customers. Data and voice, for example, are purchased by the minute or megabyte together with monthly network access fees.

Operating costs

Key operating costs for the CCG business are summarised below:

- **Employees**. Being a people-heavy business across both sales and services, employee benefits are the largest operating cost for CCG representing ~70%-75% of the total cost base with around 140 employees. Additional development costs are also capitalised as "payments for intangible assets" in the cash-flow statement.

  We have employee costs increasing by 4% per annum over the forecast period, which is in-line with business unit management assumptions of 3%-5%.

- **Other**. A mix of administration, sales and marketing, IT expenses, and professional fees make up the balance of operating costs.

A full financial summary of CCG to FY25 is presented in the table below.

Exhibit 7: CCG financial year earnings summary (in A$ unless otherwise stated)

Line item	2021a	2022a	2023f	2024f	2025f
Sales	**25.1**	**41.0**	**51.7**	**55.1**	**58.2**
Global	11.7	10.0	10.8	12.4	14.2
SME	13.4	24.4	24.6	25.4	26.2
ICT	0.0	6.7	16.4	17.2	17.9
Gross profit	**11.5**	**19.4**	**24.4**	**26.0**	**27.5**
GP%	45.7%	47.2%	47.3%	47.3%	47.3%
Operating costs	8.8	15.7	19.4	20.1	20.8
EBITDA	**2.7**	**3.7**	**5.1**	**6.0**	**6.7**
D&A	0.8	1.6	1.9	1.8	1.7
EBIT	**1.9**	**2.1**	**3.2**	**4.1**	**5.0**
Interest expense/(income)	0.1	0.5	1.1	0.8	0.5
Tax expense	0.0	0.0	0.6	1.2	1.5
NPAT	1.9	1.6	1.5	2.1	3.0
NPATA	**2.6**	**3.2**	**3.4**	**4.0**	**4.7**
Adjustments	0.0	-1.6	0.0	0.0	0.0
Reported NPAT	1.9	0.1	1.5	2.1	3.0

Source: RaaS estimates

Other Financial Commentary

Cash flow

Payment for intangibles relates to the costs of wages for internal projects that qualify for capitalisation. Costs yet to be commercialised are estimated at $0.4m for FY23 and declining into FY25.

Long-term capex spend is estimated at $0.20m, very low as a percentage of sales and in-line with similar peers.

Acquisitions. CCG made a second tranche $1m cash payment for onPlatinum in H1 FY23 in accordance with the SPA, with no further earn-outs expected, and a final payment of $0.5m for Switched On. We have no other acquisitions forecast.

Balance sheet

Goodwill and intangibles. Both historic (IPO) and more recent acquisitions have resulted in significant goodwill and intangibles given the people-based, branded and contract nature of the businesses acquired.

As at December 2022 CCG had $21.7m in goodwill and $22.8m in intangibles on the balance sheet. The group's amortisation charge relates directly to the intangibles line.

Net debt was $7.4m as of December 2022. To assist the funding of the acquisition of onPlatinum CCG established a $10m banking facility with Commonwealth Bank providing further fire power for acquisitions.

Days payable/receivables has varied year to year but long-term we are forecasting 30 days' payables and 35 days' receivables, with some risk that day's receivables move higher should the likes of the Vodafone contract exceeds expectations (extended terms).

Tax payable

CCG had carried-forward tax losses of ~$1.4m at June 2022 which were utilised in H1 FY23, and therefore tax will be payable in H2 FY23 and into FY24.

H1 FY23 Result Commentary

Highlights from the recent H1 FY23 result release are presented in the table below and include:

- **Sales growth of 50%,** driven by a full six-month contribution from the onPlatinum acquisition and solid (8%) growth in the Global division, with little contribution from Vodafone or KDDI;
- **Adjusted EBITDA growth of ~16%,** impacted by onPlatinum for a full six months and investment in the Global division in anticipation of growth from Vodafone and the like, which saw divisional EBITDA decline on the PCP**;**
- **Higher D&A** associated with the onPlatinum acquisition**; and**
- **Adjusted NPATA of $1.0m.**

Exhibit 8: CCG H1 FY23 earnings summary

Variable (A$000')	H1 FY22	H1 FY23	% CHG	Comments
Sales	**17.4**	**26.0**	**50**	
Global	5.2	5.6	8	Solid growth
SME	12.1	12.2	0	
ICT	0.0	8.3	n.m.	onPlatinum for a full six months
Gross profit	**8.0**	**12.2**	**53**	
GP%	45.9	46.9		100bps increase, aided by onPlatinum
Operating costs	6.1	10.0	65	Investment for future growth
EBITDA	**1.9**	**2.2**	**16**	
Depreciation	0.3	0.6		
Amortisation	0.6	0.9		
EBIT	**1.0**	**0.8**	**(31)**	**Higher D&A**
Interest expense	0.1	0.6		Higher interest
Pre-Tax	0.9	0.2	(77)	
Adjusted NPATA	**1.5**	**1.0**		
Reported NPAT	**(0.1)**	**0.8**		

Source: Company announcements

Performance Shares

The hurdle requirements for management performance shares can be a useful guide to KPI's and hurdle settings.

In the case of CCG a maximum of 44.1m performance shares have been issued to senior management which is based on the share price holding at/above various levels for 20 consecutive days (60%), overlaid with a continuous employment requirement (40%). The share price requirements are well above the current share price and well above the share price at the date of grant.

Key components of the performance share hurdles include:

- Tranche A first hurdle (50% of the 60%) requires a share price of $0.125c or $0.15c and continuous employment;
- Tranche A second hurdle (50% of the 60%) requires a share price of $0.20c and continuous employment;
- Tranche B (40%) relates just to continuous employment for between 24 months (50% of the 40%), 36 months (25%). and 48 months (25%) from the grant date;
- There is no exercise price for the performance shares; and
- The expiry date in five years and five days from the grant date.

We have assumed 7m shares are issued in each of the following two years in relation to Tranche B.

Peer Comparisons

We see peers to CCG as a mix of telco industry players selling both services and hardware to enterprise customers. Most of these players have had a relatively short-listed life, are small in size compared to their customers, and compete in segments dominated by much larger players (Telstra for example). The enterprise/large-cap nature of clients often implies a long lead-time in sales, but a sticky customer base once secured.

Symbio Holdings (ASX:SYM) will draw most comparisons to CCG given its CPaaS focus in call termination and messaging, and UCaaS focus for Microsoft Teams, Cisco Webex and Contract Centre.

SYM provides cloud-based voice and messaging communication solutions under three operating divisions. CPaaS delivers phone numbers, number porting, and trafficking software to cloud-based companies, UCaaS delivers Microsoft Teams and Cisco Webex solutions, and TaaS delivers voice, mobile, and data services to SME customers.

SYM H1 FY23 revenue increased 4%, gross margins were down 2% to 46%, and EBITDA was down 33% on the back of new initiative spending continuing at a time when customers were both delaying new contracts and looking to optimise phone numbers. EBITDA guidance for FY23 is $26m-$30m (down from $35.4m in FY22) before deployment of ~$100m in liquidity for M&A.

Dubber Corporation (ASX:DUB) is a leading provider of unified call recording and conversational AI for the global telecommunications industry (including CCG). The Dubber platform is the only cloud native unified recording technology that is integrated directly into the service provider's network to capture voice across mobile, video, and text services.

Dubber has over 175 contracted service providers and 580k subscribers. Dubber recently created a Foundation Partner programme beginning with Cisco, Nuuday, Ziro, and NuWave whereby its software is embedded into the original hardware/software of such providers.

DUB H1 FY23 revenue declined 14% and EBITDA losses increased to $29.9m. The group was forced to restate revenue and recurring revenue during the period and has implemented a cost saving plan to save $20m per annum at a one-off cost of $20m.

Field Solutions (ASX:FSG) is a full-service telecommunications carrier and retail service provider designing, constructing, and operating network infrastructure in rural, regional, and remote Australia. From an industry perspective the group targets agribusiness, mining, local government, and local business.

FSG is undertaking significant network expansion supported by a number of government programmes which will see it become the fourth Australian Mobile Network Operator under the Regional Australia Network brand (RAN).

FSG H1 FY23 income (including government grants) increased 29% while EBITDA declined 10% as the group continues to invest in government support services and the RAN. Guidance was given for FY23 including income of $60-$68m and EBITDA of $4.5-$5.5m.

Pentenet (ASX:5GG) is a Perth-based telco delivering high-speed Internet via a private fixed-wireless network, together with reselling fixed-line services such as the NBN. Pentenet is also rolling out a cloud gaming subscription service with alliance partner NVIDIA under the GeForceNow brand.

The group had 17,056 subscribers as of 31 December 2022 across fixed-wireless and fixed-line.

5GG H1 FY23 revenue increased 22%, gross profit 5%, while the EBITDA loss increased $0.8m to $2.5m. Improved margins in the telco business were offset by continued investment in gaming, but the company expects lower operating costs and capex going forward.

Spirit Technology Solutions (ASX:ST1) provides telecommunications, Internet, cloud, IT managed services, and cyber security solutions solely to the B2B market following the divestment of non-core B2C assets.

The group's core focus is mid-market customers where ST1 can focus on delivering a secure and connected modern workplace across three divisions, collaboration and communication, cyber security, and managed services (IT&T).

ST1 H1 FY23 revenue increased 2% while underlying EBITDA declined 6%. The group has almost completed irsmove away from capital-intensive infrastructure to an integrated technology service provider.

ActivePort (ASX:ATV) owns two ICTs based in Perth (Vizstone) and Sydney (Starboard), and also engineers, supports, and delivers white-label software that enables network management including cloud connection from a single screen. The software is agnostic to most hardware and software products on the market.

ATV H1 FY23 revenue increased 97% and gross profit 167%, while the EBITDA loss was similar to the pcp at $2.4m. Managed services represented 35% of sales, software 28%, and hardware 20% of total sales, with 82% of sales from Australia.

Cirrus Networks (ASX:CNW) is a managed services and IT solutions provider which engages nationally with the mid-market (200-2,000 employees) across business and government agencies with offices in Perth, Canberra, and Melbourne.

Services include networks and connectivity, data centre and cloud, storage and data management, cyber security, workspace and end-user computing, unified communications, and IT service management.

CNW H1 FY23 revenue increased 27%, gross profit 30%, and EBITDA moved from a loss to a profit of $2.2m. CNW reiterated a strategy to grow recurring MSP revenue, expand into transformative products across digital, data and cloud, and accelerate its acquisition plan.

Vonex (ASX:VN8) is a full-service telecommunication service provider selling mobile, internet, traditional fixed lines, infrastructure solutions, and hosted PBX and VoIP services predominantly to SME customers under the Vonxex brand.

The company also provides wholesale customers (ISPs) access to core Vonex PBX, 5G mobile broadband, and call termination services at wholesale rates via a white-label model.

VN8 H1 FY23 revenue increased 40% (13% organic) and EBITDA 14%, with voice and PBZ wholesale the standout. Since February 2021 VN8 has acquired Nextel, MNF, Voiteck, and ontheNet.

Exhibit 9 below summarises some key financial variables for the FY23 financial year.

Exhibit 9: Peer group FY23f financial comparison (in A$m unless otherwise stated)

Company Name	Ticker	Share price (cps)	Mkt. cap.	Net debt (cash) @ Dec-22	Adj. EBITDA	Revenue	Working capital/sales (%)	GP margin (%)	Capex/ sales (%)	EV/ EBITDA (x)
Symbio	SYM	1.82	154	-38.1	26.6	203	0.07	0.47	3	4.4
Dubber	DUB	0.20	62	-56.7	-40.0	42	(0.12)	0.07	12	-0.1
Field Solutions	FSG	0.07	52	-5.3	4.6	60	(0.05)	0.53	27	10.1
Pentenet	5GG	0.12	35	-5.7	-3.3	23	(0.16)	0.44	56	-9.0
Spirit Technology	ST1	0.07	45	9.4	9.0	128	(0.01)	0.50	2	6.0
Activeport	ATV	0.12	35	0.2	-4.0	17	(0.11)	0.41	0	-8.8
Cirrus Networks	CNW	0.04	33	-9.5	3.5	110	(0.05)	0.32	0	6.9
Vonex	VN8	0.05	17	19.0	7.5	42	(0.18)	0.49	0	4.8
					AVERAGE		**(0.08)**	**0.41**	**13**	**6.4**
Comms Group	**CCG**	0.07	25	5.4	5.1	51.9	0.02	0.47	0	6.1

Sources: Company financials, Refinitiv Eikon; Prices as of 14 March 2023; # SYM, FSG, ST1, CNW, VN8, BCC

Looking at CCG relative to the peer group we would highlight the following:

- Five of the eight are profitable;
- The majority have payables higher than receivables and therefore negative working capital, which is a little surprising given they are dealing with typically larger customers;
- The majority have a net cash position, with only VN8, ST1, and CCG having net debt supported by positive adjusted EBITDA;
- The capital intensity (as measured by FY22 capex/sales) varies significantly between peers, with 5GG and FSG relatively high as they are building physical networks, while the balance of peers (and CCG) is very low as they utilise third-party networks, with the cost in the COGS line; and
- Based on FY23 pro-forma estimates (including onPlatinum for a full 12 months), CCG is trading at a 5% discount to the estimated 6.4x adjusted peer EBITDA multiple (of those with positive adjusted EBITDA).
- The average share price of the peer group has declined 15% since January 2023 against a 11% decline for CCG with a range of +20% (ATV and SYM) to -58% (DUB) and -41% (5GG).

RaaS Research as a Service

DCF Valuation

Based on our earnings assumptions which have been outlined through this note our valuation for CCG using a DCF methodology is A$0.16/share, fully diluted.

We would highlight the following as being key drivers/assumptions of this valuation:

- A discount rate of 10.7% incorporating a beta of 1.1x, risk-free rate of 3.5%, and market-risk premium of 6.5%;
- Medium-term growth beyond the forecast period (FY27-FY31) of 5%;
- Terminal growth rate of 2.2%;
- Sustaining days payables of 30 days and days receivable of 35-days; and
- Sustaining gross margin of 47%.

Exhibit 10: CCG base-case DCF valuation

Parameters	Outcome
Discount rate /WACC	10.7%
Beta	1.1x
Terminal growth rate assumption	2.2%
Sum of PV ($m)	33.4
PV of terminal value ($m)	34.0
PV of enterprise ($m)	67.4
Debt @ June 23 (cash) ($m)	5.2
Net value – shareholder ($m)	62.0
No. of diluted shares on issue (m)	390
NPV ($/share)	**$0.16**

Source: RaaS estimates

Multiple Valuation

There have been three acquisitions of ASX-listed IT consulting businesses over the past 24-36 months that provide an excellent guide to trailing takeover multiples. DWS, RXP, and Empired have all been acquired by larger players on-market with an average price-to-sales of 1.1x and EV/EBITDA multiple of 8.1x the year of purchase.

Exhibit 11: Recent Australian MSP acquisition multiples

Company	Date	Acquisition price (A$m)	Sales (A$m)	Price/sales (x)	EV/EBITDA (x)
DWS Group	Sep-20	162	168	1.0	5.7
RXP Services	Nov-20	96	127	1.3	nm
Empired	Jul-21	233	187	0.8	10.6
AVERAGE				**1.1**	**8.1**

Source: Company announcements

Based on the 8.1x EBITDA from the above table and using CCG's FY23 forecast EBITDA, the implied valuation for CCG would be $0.091/share.

Based on the average FY23 EV/EBITDA multiple of the five profitable peers identified (8.1x) using CCG's FY23 forecast EBITDA, the implied valuation of CCG would be $0.07/share.

It could be argued FY23 does not include material Vodafone and/or KDDI revenue for CCG while incorporating some of the establishment costs, and therefore understates earnings/valuation.

SWOT Analysis

We see the strengths and opportunities for CCG outweighing weakness and threats, with our SWOT analysis summarised below.

Exhibit 12: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
>10 years in the corporate voice telephony space	Grow alongside Microsoft Teams in the APAC region
Management/board have skin in the game	Grow alongside Vodafone and KDDI in the APAC region
Built a strong global and APAC network with low capital outlay	Expand services (and market share) across SME and ICT
Revenue diversity both domestically and offshore	Expand into new Australian states (market share) in SME and ICT
Weaknesses	**Threats**
Relatively small player in a very large global sector	Wholesale partners change to other suppliers of voice telephony
Operates in a sector that requires continued R&D	Wholesale partners fail to penetrate chosen markets
People-based/reliant business requiring high utilisation	Domestic SME and ICT divisions lose key contracts
Reliant on the software and hardware of other players	Key technology partners change Go to Market strategy

Source: RaaS analysis

Board and Management

Directors

Mr John Angus Mackay, Independent Non-Executive Chair. John has 15 years' experience as chair and director of listed and unlisted companies across communications, utilities, health, construction, and education. John has been the chair of CCG since listing.

Mr Peter McGrath, Executive Director and CEO. Peter has over 30 years' experience in telecommunications, ICT, and corporate advisory, with over 20 years in senior leadership positions. Peter also has extensive experience in equity capital markets and corporate finance.

Mr Benjamen Jennings, Non-Executive Director. Benjamen has spent ~18 years as an accountant working in both commercial and public practice roles in both Australia and the UK.

Ms Claire Bibby, Non-Executive Director. Claire is an experienced lawyer with over 30 years' experience as a lawyer, Non-Executive Director with ASX, multinational, private and not-for-profit organisations, and executive coach.

Mr Ryan O'Hare, Non-Executive Director. Ryan has founded a number of successful telecommunications and energy companies beginning in 1998 with CorpTEL Communications, which was ultimately sold to AAPT, People Telecom in 2000 which is now part of the Vocus Group, and Next Telecom, now part of CCG. Ryan also founded and chairs diversified renewables and energy retailer Next Green Group.

Management

Mr Matthew Beale, Chief Financial Officer. Matthew has over 25 years' experience in commercial roles. This includes working for a number of small to medium-sized publicly listed and privately owned businesses, across a variety of industries, working closely with business owners and boards of directors.

Mr Zac Crofts, CEO Comms Global Group. Based in Singapore, Zac leads the Global Business unit and is responsible for accelerating growth and leveraging opportunities in the region. Zac has over 17 years of international IT and telecoms industry experience, and previously he was the founder of Team Oz Limited.

Mr Gavin Roache, CEO of SME Telco (Next Telecom). Co-founder of Next Telecom where he spent 13-years as a CEO, Gavin has 23 years' experience in the telecommunications industry. Prior to Next telecom Gavin was a commercial manager in the energy industry with for E-Utility, General Manager of Business Sales for People Telecom, and Director of Sales for Asia Pacific and North America for Tel.net Media.

Mr Shannon Overs, CEO of ICT Services (onPlatnum). Founder and CEO of onPlatinum, Shannon has over 20 years' experience in the IT industry. Shannon has experience in a wide variety of organisations including a previous role responsible for the ICT systems and infrastructure for one of Australia's largest financial services companies, in 12 worldwide locations.

Mr Michael Diamond, Chief Operations Officer. Michael works across the Global and Australian divisions and is responsible for the group's networks. Michael has over 20 years' experience in the telecommunications industry including successfully launching and operating Binary Networks before being acquired by Comms Group in 2021.

Exhibit 13: CCG Financial Summary

Comms Group Limited (ASX:CCG)					
Profit and Loss (A$m)					
Y/E 30 Jun	**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
Revenue	25.2	41.3	51.9	55.2	58.4
Gross profit	11.5	19.4	24.4	26.0	27.5
GP margin %	45.5%	46.9%	47.1%	47.1%	47.1%
EBITDA	2.7	3.7	5.1	6.0	6.7
Depn	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)
RoU	(0.3)	(0.8)	(1.0)	(1.0)	(1.0)
Amortisation	(0.8)	(1.6)	(1.9)	(1.8)	(1.7)
EBIT	1.6	1.3	2.0	2.9	3.8
Interest expense	(0.1)	(0.5)	(1.1)	(0.8)	(0.5)
Tax	(0.1)	0.1	(0.6)	(1.2)	(1.5)
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPATA normalised	**2.2**	**2.4**	**2.2**	**2.8**	**3.5**
Adjustments	(0.8)	(1.6)	0.0	0.0	0.0
NPAT (reported)	**0.6**	**(0.7)**	**0.3**	**0.9**	**1.8**
Cash flow (A$m)					
Y/E 30 Jun	**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
Adj EBITDA (after rent)	2.3	2.9	4.1	4.9	5.7
Interest	(0.1)	(0.2)	(1.1)	(0.8)	(0.5)
Tax	(0.0)	0.0	0.0	(1.2)	(1.5)
Working capital/other	(1.7)	(1.7)	(0.8)	(0.1)	(0.1)
Operating cash flow	**0.5**	**1.0**	**2.3**	**2.8**	**3.6**
Mtce capex	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Capitalised Software	(0.5)	(0.7)	(0.4)	(0.4)	(0.3)
Free cashflow	**(0.1)**	**0.1**	**1.7**	**2.2**	**3.1**
Acquisitions/Disposals	(2.7)	(10.7)	(1.9)	0.0	0.0
Other	0.0	(0.2)	0.0	0.0	0.0
Cash flow pre financing	**(2.8)**	**(10.8)**	**(0.3)**	**2.2**	**3.1**
Equity	5.9	0.0	0.0	0.0	0.0
Borrowings	0.0	8.1	0.6	(1.0)	(1.0)
Net Dividends paid	0.0	(0.1)	0.0	0.0	0.0
Change in cash	**3.1**	**(2.7)**	**0.3**	**1.2**	**2.1**
Balance sheet (A$m)					
Y/E 30 Jun	**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
Cash	5.5	2.9	3.2	4.5	6.5
Accounts receivable	4.1	4.9	4.9	5.3	5.6
Other receivables	0.0	0.0	0.0	0.0	0.0
Other current assets	0.8	1.9	1.9	1.9	1.9
Total current assets	*10.4*	*9.8*	*10.1*	*11.7*	*14.0*
PPE	0.1	0.2	0.2	0.2	0.3
Capitalised Software	8.1	25.1	22.8	20.6	18.6
Goodwill	15.6	20.6	21.7	21.7	21.7
Right of Use Asset	1.5	3.2	2.2	1.2	0.2
Other non current assets	2.0	2.5	1.8	4.6	7.3
Total non current assets	*27.3*	*51.6*	*48.8*	*48.4*	*48.1*
Total Assets	37.7	61.4	59.0	60.1	62.1
Trade payables	2.0	3.1	3.1	3.3	3.5
Deferred revenue	1.0	0.8	0.8	0.8	0.9
Borrowings	0.0	0.8	1.0	1.0	1.0
Other	2.8	9.6	4.3	4.2	4.2
Total current liabilities	*5.8*	*14.2*	*9.1*	*9.3*	*9.5*
Borrowings	0.0	7.4	7.7	6.7	5.7
Deferred tax	2.4	7.0	7.0	7.0	7.0
Other	1.5	2.8	2.8	2.8	2.8
Total long term liabilities	*3.9*	*17.2*	*17.5*	*16.5*	*15.5*
Total Liabilities	9.7	31.4	26.6	25.8	25.0
Net Assets	**28.0**	**30.0**	**32.3**	**34.3**	**37.1**
Share capital	45.6	47.8	48.8	48.8	48.8
Reserves	0.4	1.0	1.0	1.0	1.0
Accumulated losses	(18.1)	(18.7)	(17.4)	(15.5)	(12.7)
Total Shareholder funds	**28.0**	**30.0**	**32.3**	**34.3**	**37.1**

Share price (17 March 2023)					A$	0.068
Interim (A$m)	**H121A**	**H221A**	**H122A**	**H222A**	**H123A**	**H223F**
Revenue	9.1	16.2	17.4	24.0	26.1	25.8
EBITDA	1.2	1.5	1.9	1.7	2.3	2.8
EBIT	1.2	0.4	1.0	0.3	0.8	1.2
NPATA (normalised)	**1.0**	**1.2**	**1.5**	**1.0**	**1.0**	**1.2**
Adjustments	(0.5)	(0.4)	(0.9)	(0.6)	0.7	0.0
NPAT (reported)	(0.2)	0.2	(0.4)	(0.6)	0.8	0.3
EPS (adjusted)	0.004	0.004	0.004	0.003	0.003	0.003
Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000
Imputation	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	na	na	na	na	na	na
Free Cash flow	na	na	na	na	na	na
Divisionals	**H121A**	**H221A**	**H122A**	**H222A**	**H123A**	**H223F**
Revenue	**9.1**	**16.2**	**17.4**	**24.0**	**26.1**	**25.8**
Global	na	na	5.2	4.8	5.6	5.2
SME	na	na	12.1	12.3	12.2	12.4
ICT	na	na	-	6.7	8.3	8.1
Gross profit	4.5	7.0	8.0	11.4	12.3	12.1
Gross Profit Margin %	49.8%	43.1%	45.9%	47.6%	47.1%	47.1%
Employees	2.2	3.7	4.3	6.8	7.3	6.6
Administration	0.2	0.5	0.6	0.6	0.6	0.6
Other	0.9	1.2	1.2	2.3	2.0	2.2
Total costs (ex SBP/1-off)	**3.3**	**5.5**	**6.1**	**9.7**	**10.0**	**9.4**
EBITDA	**1.2**	**1.5**	**1.9**	**1.7**	**2.3**	**2.8**
EBITDA margin %	13.5%	9.1%	11.0%	7.3%	8.9%	10.7%
Margins, Leverage, Returns		FY21A	FY22A	FY23F	FY24F	FY25F
EBITDA margin %		10.7%	8.8%	9.8%	10.8%	11.5%
EBIT margin %		6.2%	3.0%	3.9%	5.3%	6.4%
NPAT margin (pre significant items)		8.6%	5.9%	4.3%	5.0%	6.0%
Net Debt (Cash)		- 5.50	5.18	5.44	3.21	0.14
Net debt/EBITDA (x)	(x)	-2.0	1.4	1.1	0.5	0.0
ND/ND+Equity (%)	(%)	(21.2%)	16.5%	16.3%	9.2%	0.4%
EBITDA interest cover (x)	(x)	47.4	7.6	4.8	7.4	13.5
ROA		nm	nm	3.4%	4.9%	6.2%
ROE		nm	nm	1.1%	2.7%	4.8%
NTA (per share)		0.02	-0.05	-0.03	-0.02	-0.01
Working capital		2.1	1.9	1.9	2.0	2.1
WC/Sales (%)		**8.5%**	**4.5%**	**3.6%**	**3.6%**	**3.6%**
Revenue growth			63.9%	25.4%	6.5%	5.7%
EBIT growth pa		3.7%	(20.0%)	60.9%	43.5%	29.3%
Pricing		**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
No of shares (y/e)	(m)	340	361	379	386	393
Weighted Av Dil Shares	(m)	258	348	375	383	390
EPS Reported	A$ cps	0.0051	0.0025	0.0059	0.0072	0.0090
EPS Normalised/Diluted	A$ cps	0.0113	0.0115	0.0109	0.0120	0.0134
EPS growth (norm/dil)			1%	-5%	11%	11%
DPS	cps	0.000	0.000	0.000	0.000	0.000
DPS Growth		n/a	n/a	na	na	na
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		0	0	0	0	0
PE (x)		6.0	5.9	6.3	5.6	5.1
PE market		15.0	15.0	15.0	15.0	15.0
Premium/(discount)		(60.0%)	(60.6%)	(58.3%)	(62.3%)	(66.1%)
EV/EBITDA (x)		6.5	6.5	5.0	4.4	4.0
FCF/Share	A cps	(0.011)	(0.031)	(0.001)	0.006	0.008
Price/FCF share		(6.3)	(2.2)	(99.7)	11.7	8.6
Free Cash flow Yield		(10.9%)	(42.3%)	(1.0%)	8.8%	12.0%

Source: Company data for actuals, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

About Us

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This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

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- provide general advice to retail and wholesale clients in relation to
    - Securities
- deal on behalf of retail and wholesale clients in relation to
    - Securities

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)
In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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