VERITAS SECURITIES LIMITED

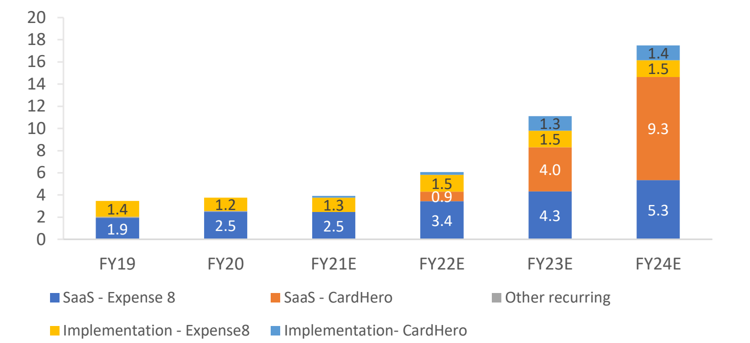
8common Limited

Uncommon opportunity

We initiate coverage of 8common with a Buy recommendation and a fair value of $0.50 per share, 196% upside.

- **Leading expense software:** 8common's cloud based Expense8 software enables employees to claim work related expenses. It has an estimated 10% share of the Australian market and an even larger share of the Australian state and federal government market, where it has a similar number of users to the global leader SAP Concur. Expense8 has grown SaaS revenues at 34% CAGR over the three years to FY20 and should grow more rapidly in the near term with an easing of COVID restrictions leading to higher average revenue per user (ARPU). Forty government departments are scheduled to join the platform.
- **Integrating card payments creates a large new market:** CardHero is a new product for 8common. Traditional expense management systems reconcile staff expenses after the event. CardHero stops inappropriate spending before it occurs by enabling the business – not a bank - to accept or reject transactions in real time. The first contract for this product was signed in December 2020 with Life Without Barriers (LWB), a major provider of NDIS funded care. CardHero is hugely revenue accretive due to a 5-6x higher ARPU than Expense8 whilst simultaneously being cheaper than corporate cards. We expect 8common will achieve its informal target of 100,000 CardHero users by June 2024 by converting some of its 160,000 Expense8 users. This explains our forecast for $15m SaaS revenue and $17.5m total revenue by FY24 (Figure 1).
- **196% upside to our fair value of 50c per share:** Our DCF derived fair value of 50c per share puts 8common on an EV/revenue multiple of 8.7x in FY23 versus 2.7x currently which is a 14% discount to Australian and US relevant peers trading on 10.1x (Figure 18).

Figure 1. 8common revenue forecasts by type ($m)



Source: Company data, Veritas research

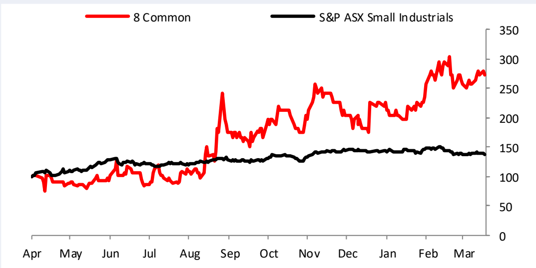
8CO.ASX BUY

Friday 26 March 2021

Share Price	$0.17
Price Target	$0.50
Valuation Method	DCF
Market capitalisation	$34.1m
Enterprise value	$30.4m
GICS sector	Software and Services
12 month price range	$0.05 - $0.20
Shares in issue	200.4m
Top 20 holders	124.8m
Previous rating	Initiation

Year ended June 30		FY20A	FY21E	FY22E	FY23E	FY24E
Revenue	$m	3.8	3.9	6.1	11.1	17.5
Growth	%	8.2	4.2	55.0	83.0	57.4
EBITDA	$m	(0.1)	(0.5)	0.5	2.8	5.5
Margin	%	(2.5)	(11.7)	8.2	25.4	31.5
NPAT	$m	(0.4)	(0.7)	0.1	1.5	3.3
EPS	¢ps	(0.2)	(0.4)	0.0	0.8	1.6
CFPS	¢ps	(0.1)	(0.1)	0.3	1.3	2.3
PER	x	N/A	N/A	547.0	22.2	10.4
Price/Cash Flow	x	N/A	N/A	52.8	12.6	7.2
EV/Revenue	x	8.1	7.8	5.0	2.7	1.7
EV/EBITDA	x	N/A	N/A	61.4	10.8	5.5
EV/EBIT	x	N/A	N/A	354.3	14.4	6.8
EV/Capital	x	10.9	16.8	19.8	18.0	11.9
Gearing (net debt: capital)	%	(54)	(181)	(234)	(296)	(290)
Fixed charge cover	x	N/A	N/A	N/A	N/A	N/A
Return on capital	%	(9.9)	(32.6)	3.7	94.9	153.9

8common vs. Small Industrials Index



Source: Factset, Veritas

8common's major products are Expense8 and CardHero. Expense8 is cloud based expense management software for enterprises. CardHero is a client administered payment card solution which provides greater control over spending than corporate cards. Major customers include the State and Federal Governments of Australia and large companies including Woolworths Limited and Amcor.

https://www.8common.com

James Tracey CFA
+61 (0) 2 8252 3275
jtracey@veritassecurities.com.au

Max Moore
+61 (0) 429 482 848
mmoore@veritassecurities.com.au

8common Limited

Share Price: $0.17 ps **Valuation: $0.50 ps**

Financial Performance (A$m)

Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Revenue	**3.5**	**3.8**	**3.9**	**6.1**	**11.1**	**17.5**
Cost of goods	(1.1)	(0.6)	(0.7)	(1.4)	(3.4)	(6.2)
Gross profit	**2.4**	**3.2**	**3.2**	**4.7**	**7.7**	**11.3**
Grants & other income	0.2	0.4	0.1	0.0	0.0	0.0
Operating costs	(3.3)	(3.7)	(3.7)	(4.2)	(4.9)	(5.8)
Normalised EBITDA	**(0.7)**	**(0.1)**	**(0.5)**	**0.5**	**2.8**	**5.5**
Depreciation and amortisation	(0.7)	(0.3)	(0.3)	(0.4)	(0.7)	(1.0)
Normalised EBIT	**(1.4)**	**(0.4)**	**(0.8)**	**0.1**	**2.1**	**4.5**
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.0)	0.0	0.0	0.0	0.0	0.0
Normalised Pre-tax Profit	**(1.4)**	**(0.4)**	**(0.8)**	**0.1**	**2.1**	**4.5**
Normalised tax	0.0	(0.0)	0.0	(0.0)	(0.6)	(1.2)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	**(1.4)**	**(0.4)**	**(0.7)**	**0.1**	**1.5**	**3.3**
One off items (post-tax)	0.0	(0.4)	0.4	0.0	0.0	0.0
Reported profit to holders	**(1.4)**	**(0.8)**	**(0.3)**	**0.1**	**1.5**	**3.3**

Cash Flow Statement (A$m)

Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Normalised EBITDA	**(0.7)**	**(0.1)**	**(0.5)**	**0.5**	**2.8**	**5.5**
Cash net interest	(0.0)	0.0	0.0	0.0	0.0	0.0
Cash tax (paid)/received	0.0	(0.0)	(0.0)	(0.0)	(0.6)	(1.2)
Working capital/other	0.5	(0.1)	0.3	0.2	0.5	0.4
Operating Cash Flow	**(0.1)**	**(0.2)**	**(0.1)**	**0.6**	**2.7**	**4.7**
Capex	0.0	(0.0)	(0.2)	(0.3)	(1.3)	(2.3)
Payments on finance leases	0.0	0.0	0.0	0.0	0.0	1.0
Free Cash Flow	**(0.1)**	**(0.2)**	**(0.3)**	**0.3**	**1.4**	**3.4**
Disposals/Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	1.0
Equity raised/buybacks	0.0	1.0	2.3	0.0	0.0	0.0
Borrowings/(debt repayment)	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.0	(0.1)	0.0	0.0	(2.0)
Net increase/(decrease) cash	**0.5**	**0.8**	**1.9**	**0.3**	**1.4**	**2.4**
Cash at beginning	0.5	1.0	1.8	3.7	4.0	5.4
Cash at end (including bank deposits)	1.0	1.8	3.7	4.0	5.4	7.8

Balance Sheet (A$m)

Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Cash	1.0	1.8	3.7	4.0	5.4	7.8
Receivables	0.3	0.2	0.2	0.5	1.1	1.9
Other current assets	0.0	0.1	0.1	0.1	0.1	0.1
Current Assets	**1.4**	**2.2**	**4.0**	**4.6**	**6.6**	**9.8**
Property, Plant & Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	2.1	1.8	1.7	1.6	2.2	3.5
Other non current assets	4.1	1.5	0.8	0.8	0.8	0.8
Non Current Assets	**6.1**	**3.2**	**2.5**	**2.4**	**3.0**	**4.3**
Total Assets	**7.5**	**5.4**	**6.6**	**7.1**	**9.6**	**14.2**
Payables	1.0	0.6	0.8	1.2	2.3	3.5
Current tax	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.5	0.2	0.3	0.3	0.3	0.3
Total debt	0.0	0.3	0.4	0.4	0.4	0.4
Total Liabilities	**1.5**	**1.1**	**1.5**	**1.9**	**2.9**	**4.2**
Shareholder Funds	**6.0**	**4.3**	**5.1**	**5.2**	**6.7**	**9.9**

Directors and Key Management Personnel

	Shares	Holding
Kah Wui "Nic" Lim	26.5m	13.2%
Andrew Bond	0.0m	0.0%
Kok Fui Lau	17.2m	8.6%
Nyap Liou "Larry" Gan	14.4m	7.2%
Adrian Bunter	0.1m	0.0%
John Du Bois	0.3m	0.2%

Major Shareholders (excluding nominees)

	Shares	Holding
Kah Wui "Nic" Lim	26.5m	13.2%
Kok Fui Lau	17.2m	8.6%
Nyap Liou "Larry" Gan	14.4m	7.2%
Maxwealth Capital Limited	9.9m	5.0%
Top 20 shareholders	**124.8m**	**62.3%**

Source: Company data, Veritas Research

Valuation Metrics

		Valuation
Price Target (ps)	$0.50	196%
Share Price (ps)	$0.17	
FY22E EV/Revenue (x)	5.0	
Implied FY22 EV/Revenue (x)	16.0	219%
Implied FY23 EV/Revenue (x)	8.7	74%
Market Capitalisation (A$m)	34.1	
Enterprise Value (A$m)	30.4	
Shares in Issue	200.4	

Valuation Multiples

Year ended June	FY19	FY20	FY21E	FY22E	FY23E	FY24E
P/E (x)	N/A	N/A	N/A	547.0	22.2	10.4
Price/Cash Flow (x)	N/A	N/A	N/A	52.8	12.6	7.2
EV/Revenue (x)	8.8	8.1	7.8	5.0	2.7	1.7
EV/EBITDA (x)	N/A	N/A	N/A	61.4	10.8	5.5
EV/EBIT (x)	N/A	N/A	N/A	354.3	14.4	6.8
Equity FCF yield (%)	-0.4	-0.6	-0.9	1.0	4.1	10.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	6.1	10.9	16.8	19.8	18.0	11.9
Price to book value (x)	4.0	6.6	6.4	6.6	5.1	3.4

Per Share Data

Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
EPS diluted - adjusted (¢ps)	**(0.95)**	**(0.25)**	**(0.38)**	**0.03**	**0.76**	**1.63**
EPS diluted (¢ps)	(0.95)	(0.25)	(0.38)	0.03	0.76	1.63
Cash flow per share (¢ps)	(0.09)	(0.12)	(0.07)	0.32	1.34	2.35
Free cash flow per share (¢ps)	(0.09)	(0.13)	(0.15)	0.17	0.69	1.70
Cash (¢ps)	0.72	1.10	1.93	2.01	2.70	3.90
Net assets (¢ps)	4.23	2.59	2.66	2.57	3.34	4.96
DPS (¢ps)	0.00	0.00	0.00	0.00	0.00	0.00
Franking (%)	0.00	0.00	0.00	0.00	0.00	0.00
Shares on issue - avg. basic (m)	143	167	192	200	200	200
Shares on issue - avg. diluted (m)	143	167	192	200	200	200

Segmental revenue

Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Expense8 users avg. (k)	94.0	118.7	142.3	172.1	197.1	222.1
CardHero users avg. (k)	0.0	0.0	0.0	7.3	33.0	77.5
SaaS - Expense 8	1.9	2.5	2.5	3.4	4.3	5.3
SaaS - CardHero	0.0	0.0	0.0	0.9	4.0	9.3
Other recurring	0.1	0.1	0.0	0.0	0.0	0.0
Implementation - Expense8	1.4	1.2	1.3	1.5	1.5	1.5
Implementation- CardHero	0.0	0.0	0.2	0.3	1.3	1.4
Revenue ($m)	**3.5**	**3.8**	**3.9**	**6.1**	**11.1**	**17.5**
SaaS - Expense 8	19.4	29.5	(0.9)	39.5	26.0	23.3
SaaS - CardHero					355.2	134.8
Implementation - Expense8	40.3	(17.3)	9.4	15.3	0.0	0.0
Implementation- CardHero				75.0	402.9	2.3
Revenue growth (%)	**31.7**	**8.2**	**4.2**	**55.0**	**83.0**	**57.4**

Performance Ratios (%)

Year ended June 30	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Gross margin	69.3	85.1	81.3	77.0	69.4	64.7
Operating cost margin	94.9	98.4	94.9	68.9	44.0	33.2
EBITDA margin	(19.0)	(2.5)	(11.7)	8.2	25.4	31.5
Gross profit growth	11	33	0	47	65	47
Cost growth	28	12	1	12	17	19
EBITDA growth	N/A	N/A	N/A	N/A	469	95
Normalised EPS growth	N/A	N/A	N/A	N/A	2359	113
Tax rate	1.3	-7.7	4.1	27.5	27.5	27.5
Return on invested capital	(26)	(10)	(33)	4	95	154

Balance Sheet Ratios

Balance Sheet (A$m)	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Gross debt ($ m)	0.0	0.3	0.4	0.4	0.4	0.4
Net cash/(debt) ($ m)	1.0	1.5	3.3	3.6	5.0	7.4
Gearing (net debt (cash): capital)	-21	-54	-181	-234	-296	-290
Fixed charge cover (x)	N/A	N/A	N/A	N/A	N/A	N/A

Contents

SaaS for expense management and payments

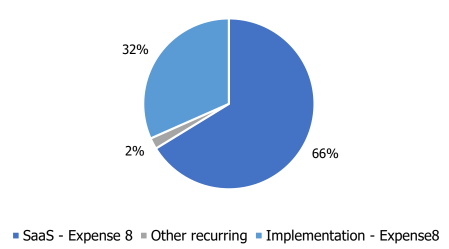
Two thirds of group revenues are recurring, and two thirds of recurring revenues are from Governments.

8common was listed on the ASX on 22 August 2014 with an offer price of $0.25 per share and an initial market capitalisation of $13.5m. The company has two main products.

- *Expense8:* software which enables employees to claim travel and other work-related expenses with automated recognition and classification of receipts.
- *Card Hero:* a payment card solution, fully integrated with Expense8, for the control of payments made by employees (CardHero) or disbursement of funds during patient care (CardHero+). CardHero and CardHero+ are effectively the same system with different client use cases and reporting modules.

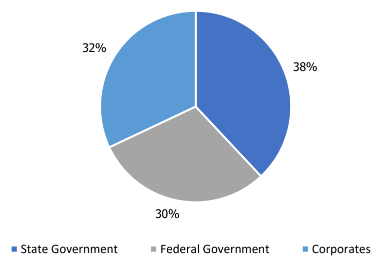
8common reported sales of $3.8m in FY20, 68% of which is recurring (Figure 2). 68% of SaaS revenues were from Australian Government (Figure 3) and the rest from corporations including Woolworths Limited, Amcor and Rabobank.

Figure 2: Revenues by type in FY20



Source: Company data, Veritas research

Figure 3: SaaS revenue breakdown in FY20



Source: Veritas, Company

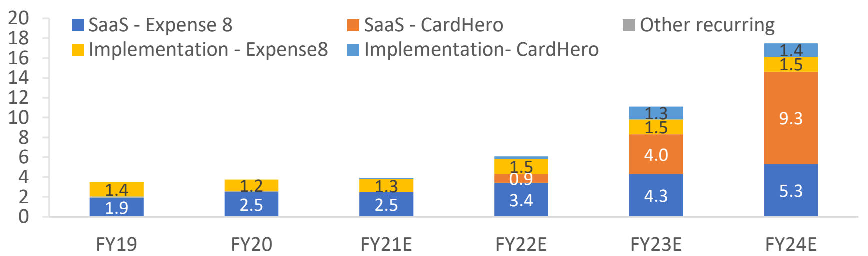
Expense8 represented 100% of group revenues in FY20 and we forecast 95% in FY21E. CardHero made its first revenue contribution in 3Q20 from a contract with Life Without Barriers, a not-for-profit that provides NDIS funded care. The contract should deliver at least $0.5m of SaaS revenue per year from FY22 over its term according to a company announcement to the ASX on 24 December 2020. All revenues are derived from Australia.

At the time of listing the two primary businesses of the group were Realtors8 - a CRM system used by real estate agents - and Expense8. 90% of Realtors8 was sold in exchange for 39.4m shares in Malaysian listed Cloudaron (CLOUD.KLSE) on 15 February 2018. 8common's minority stake in Cloudaron is currently worth $0.6m.

We forecast revenues will increase four-fold over the next four years.

We forecast group revenue will grow by 365% over the next four years to $17.5m in FY24, with $14.6m of recurring SaaS revenue. Most of the growth should be driven by CardHero due to a 5-6x higher ARPU (Figure 5). Expense8 SaaS revenue should increase due to higher transaction fees when travel resumes, and the Government roll out of shared services.

Figure 4: 8common revenue forecasts by type



Source: Veritas research.

Expense8: leading expense software

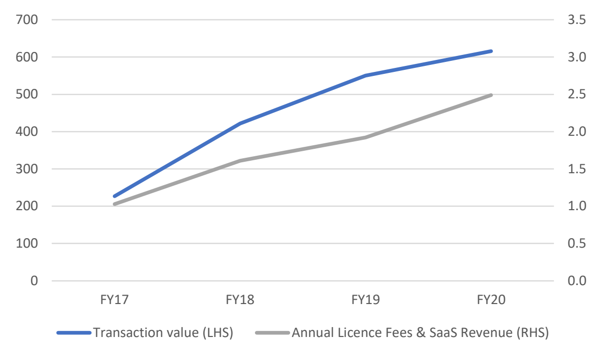
Expense8, previously called iCMS, was founded in 1998 and acquired by 8common in March 2014. Expense8 is software as a service for employee travel and expense management with a leading position with the Australian government sector. It has three modules:

- **Expense management**: allows employees to record expenses. Automated recognition of receipts and tailored integration with other corporate systems (including ERP) reduces the time spent by employees in classifying and getting approval for expenses.
- **Corporate travel:** allows employees to request approvals, plan and book travel using real-time costs and availabilities. This module is integrated with systems of the corporate travel agent specified by the client.
- **Reporting:** provides business with an automated insight into travel and expense trends and minimises the account reconciliation process.

Rapid growth

Expense8 clients processed $616m of receipts via the system in FY20, generating $2.5m of software as a service (SaaS) revenue for the group. The value of transactions through the platform has grown at 39% CAGR and SaaS revenue at 34% CAGR over the three years to FY20 (Figure 4).

Figure 5: Expense8 transaction value (LHS) vs. SaaS revenues (RHS)



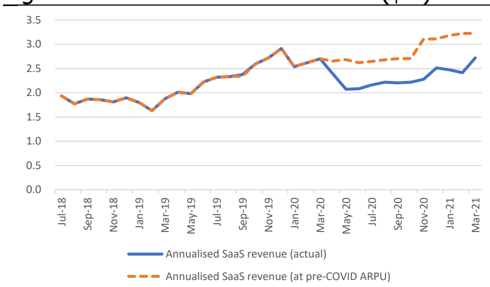
Source: Companies, Veritas research.

Recovering from COVID

Expense8 has nearly doubled the number of users since July 2018.

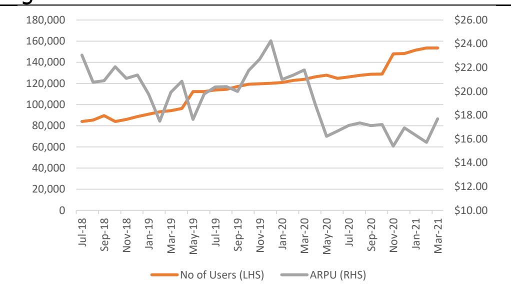
Prior to COVID roughly half of Expense8 SaaS revenues were transaction based. SaaS revenues took a hit at the beginning of 2020 due to COVID related restrictions on travel, one of the major reasons for users to claim expenses. Annualised SaaS revenues peaked $2.9m in December 2019 before troughing in May 2020 at $2.1m. SaaS revenues have subsequently recovered to $2.7m in March 2021 (Figure 6).

Figure 6: Annualised SaaS revenue ($m)



Source: Company data, Veritas research

Figure 7: Number of users vs. ARPU



Source: Veritas, Company

The growth in the number of active users on the platform (Figure 7) is a good indicator of underlying performance as it is independent of COVID impacts. The number of users has nearly doubled from 84,000 in July 2018 to 154,000 in March 2021 and we estimate 160,000 today. Prior to COVID ARPU was relatively stable at around $21 per user. It dropped to below $17 when COVID restrictions took effect. ARPU increased by 13% in March versus February, and we expect it should continue to improve with major Australian state borders now open. The reopening of international borders should also positively impact ARPU.

In the absence of COVID we estimate that 8common would have had at least $3.2m of annualised SaaS revenue in March 2021. We get this by applying the pre-COVID average ARPU to the actual number of system users. This would rise to $3.7m if the revenues from the first CardHero contract with Life Without Barriers were included which should begin contributing SaaS revenue from June 2021.

Why customers choose Expense8

Expense8 is tailored for the unique requirements of Australian Governments and corporates.

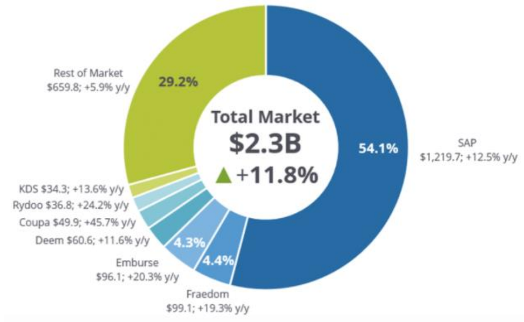
Expense8's main advantages over its competition include:

- *Security:* The data is hosted in Australia making it more compliant with Government and corporate security policies with less latency in application performance. Expense8's extensive Federal and State Government presence gives it an advantage in being able to onboard new agencies more easily as the company already has requisite security clearances. Expense8 is compliant with IRAP – the notoriously stringent Australian Federal Government standard for software security – run by the Department of Defence.
- *Customer experience:* Support and implementation based in Australia which makes 8common easy to deal with.
- *Localisation:* A longstanding Australian presence has allowed 8common to have a developed competency around the complexities of Australian tax law such as fringe benefits tax. Expense8 is tailored for the unique requirements of Australian governments and enterprises.
- *An ability to deal with complex workflows:* Expense8 is the only travel expense software to be integrated with the Australian Government's own travel booking tool. This enables Government Employees to book flights within Expense8 that are compliant with internal rules (such as an appropriate class of flight) at the time of booking.

10% market share in Australia

We estimate Expense8 has 10% share of the $50m Australian travel and expense management software market in FY21 with approximately 160,000 users. Most employees of the enterprises that use Expense8 software are not users of the system because they do not incur expenses in their roles. Existing Expense8 clients have a total 1.3m employees. Dividing this by the 12.9m size of the Australian workforce (link) gives a 10% market share. A limited international presence gives Expense8 a 0.1% share of the A$3.0bn global market. SAP Concur is the leading software globally with 54% share of the market (Figure 8).

Figure 8: Global Travel and Expense Management Software Market Shares 2019 (US$m)

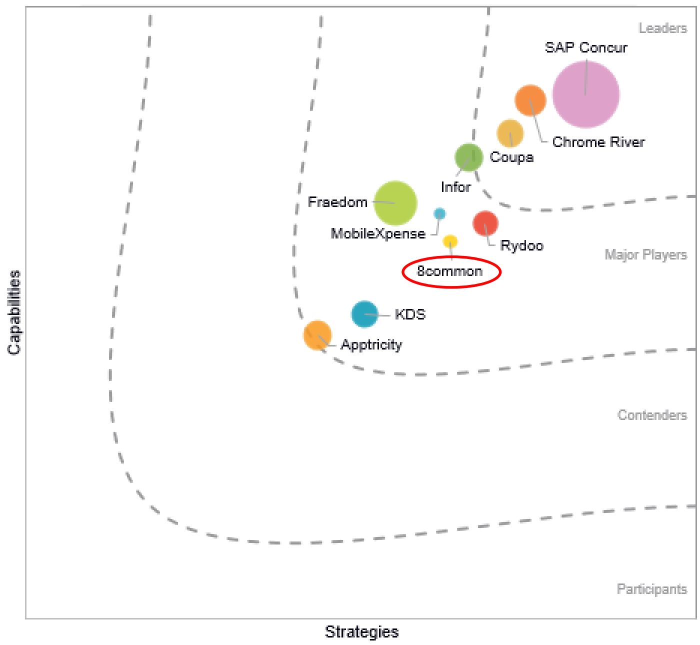


Source: IDC, Veritas research.

A strong position in the Australian Government sector means IDC considers Expense8 to be a major global player.

In 2019, Expense8 was named a 'major global player' in the expense management market by IDC (Figure 9). IDC considers Expense8 to be a major global player, despite a relatively low market share globally, due to its strong position with the Australian government and corporates. 8common's corporate clients include Woolworths Limited, Amcor, Mitre 10, Life Without Barriers, Nutrien Ag Solutions and Rabobank.

Figure 9: Worldwide SaaS and Cloud-Enabled Enterprise Travel and Expense Management Applications in 2019



Source: IDC, Veritas research.

A higher Government share

Expense8 has contracts with over 150 government entities in Australia. We estimate that 13% of Australian Federal Government employees, 25% of NSW State Government employees and 95% of Northern Territory State Government employees are Expense8 users (Figure 10). We believe 8common's market share within the State and Federal Governments of Australia is similar to that of the world's largest player - SAP Concur.

Figure 10: Expense8 estimated Government share as of December 2019

	Expense8 users (k)	Employees (k)	Share
NSW Government	85	338	25%
NT Government	21	22	95%
Australian Government	17	133	13%
Total	**123**	**493**	**25%**

Source: Veritas research, NSW Public Service Commission, Office for the Commissioner of Public Employment Northern Territory Government, Australian Public Service Commission.

It is important to note that dividing the number of users by the number of total employees likely understates market share because not all employees have a need to claim expenses. Expense8 is the exclusive expense management software provider for all NSW Government departments except the Health Department which means that any NSW Government employee outside of the Health Department that is entitled to a corporate credit card will likely use the Expense8 system including Police, teachers and transport workers.

Government roll-out of shared services to drive revenue growth

The roll out of shared services should contribute $1.6m to SaaS revenues over the forecast period.

The Australian Government is in the process of creating IT shared services hubs which should drive Expense8 revenue growth. Historically, each Government department had its own IT systems which led to considerable duplication of cost and unnecessary complexity. The shared services initiative describes multiple departments sharing IT infrastructure. The initial step of the initiative is for each department to align its systems with one of six hubs. The number of hubs should diminish over time.

Two of six hubs – the Department of Industry, Innovation & Science and the Department of Finance - selected Expense8 as their exclusive expense management and travel software provider in May and June 2019, respectively. The other hubs are yet to finalise their choice of provider or have elected to use SAP Concur.

There are 40 Government departments which have been designated to an Expense8 hub but are yet to go live. These 40 departments should be onboarded onto Expense8 over the next couple of years and should deliver incremental annual SaaS revenues of $1.6m (+56% on the $2.5m reported SaaS revenue in FY20) and take the number of federal government users from 17,000 toward 50,000.

Another part of the Australian Government's shared services initiative is GovERP. GovERP is a menu from which the hubs can select software solutions on behalf of the departments that sit within the hub. Expense8's incumbency within two major hubs should leave it well placed to be put on the menu which we expect should lead to more users on the platform. The GovERP project is in its preliminary stages with no firm timeline for completion.

CardHero: Integrating payments & expenses

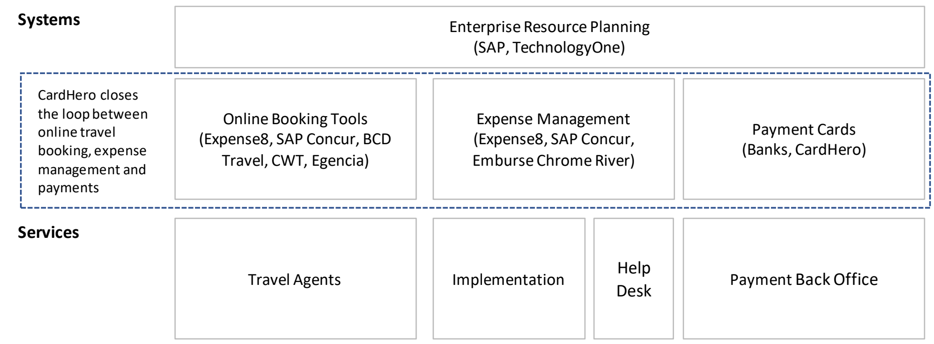
CardHero enables enterprises to better control employee spending via the integration of payment cards with expense management software.

CardHero is a new product for 8common, inspired by demand from clients for greater control over spending at the time of purchase. Traditional expense management systems reconcile staff expenses after the event. CardHero stops inappropriate spending before it occurs.

Closing the loop

CardHero enables advanced payment approval functionality by bringing the processes of expense management, payment cards and online travel booking tools into a single system (Figure 11). To facilitate the payment processing and regulatory aspects of card issuance, 8common signed a licensing agreement with EML Payments Limited (EML.ASX).

Figure 11: CardHero closes the loop on expenses, payment cards and online travel booking



Source: Veritas research.

There are several other companies that offer payment cards integrated with expense management including: Divipay, Budgetly and Volopay. CardHero competitors are targeted at SME's and integrate with Xero or MYOB. CardHero is focused on large companies and integrates with enterprise systems including SAP S/4 Hana and Oracle ERP. Competitor products do not work with the complex workflows and accounting requirements of 8Common's client base leaving it in a unique position to gain share from users of corporate credit cards.

Enabling enterprises to stop bad behaviour before it happens

CardHero enables the enterprise to issue payment cards to employees and to specify the rules that apply to spending on the cards. If the rules are breached, then the transaction will decline at the point of sale.

The benefits of the enterprises being able to set such spending rules include:

- **Allowing purchases from specified merchants only**: CardHero gives enterprises the ability to specify which merchants employees are authorised to purchase from. This is relevant where the employee card is being used for a specific purpose – i.e., the purchase of food on behalf of patients. Traditional expense management software does not prevent employees spending money inappropriately, it merely flags the situation after the event and only if the breach is identified.
- **Blocking spending from specified merchants:** An alternative to the opt-in approach is allowing the enterprise to specify a list of merchants that are not allowed. This prevents staff from using company cards for gambling or other undesirable purposes. Corporate cards would probably already have this

functionality if banks gave their customers this option. Importantly, most of the employee spending rules are already contained within Expense8 so it makes sense to add card functionality to the software. Adding business rules to banking processes is likely to be prohibitively costly.

- **More timely identification of inappropriate spending:** Bank systems are designed to catch credit card fraud – not to police compliance with enterprise rules. For this reason, spending that is not fraudulent – but against company rules – can be difficult for the enterprise to identify in a timely manner. Often the only way for enterprises to identify such spending with bank issued cards is to manually trawl through bank statements or a clunky online banking portal. CardHero is designed to detect inappropriate spending before it happens.
- **Timelier issuance of new cards:** One of the biggest limitation of banks issuing credit cards to employees is the time it takes for the bank to collect relevant documentation and issue the cards. Large organisations have a legitimate need to enable their employees to spend corporate money as quickly as is possible. CardHero enables enterprises to issue a new virtual card to a new employee within seconds.
- **A choice of virtual or physical cards:** One of the limitations of the bank issued credit card is the time required for a card to be manufactured and sent to the user. CardHero enables the instantaneous creation of virtual cards that can be used in the same fashion as a physical card with a smartphone.
- **No need for multiple lines of credit:** CardHero does not require the organisation to apply for a line of credit each time a new employee card is created. Cards are pre-paid with the funds in a corporate trust account. The value of funds available on the card can be maintained at a pre-determined level (such as available funds of $2,000 per employee with automatic top up) or alternatively the employee can request and receive funds just for a specific purchase. CardHero negates the need for an onerous credit application process and removes the financial liability associated with a credit card.

There are also numerous benefits of having the expense system integrated with an enterprise payment card, namely:

- **Reduced administration costs:** CardHero enables payment card data to be linked to the expense management system (Expense8) in real time. This integration allows much of the information currently provided manually by employees (often weeks or months after the event) to be automatically populated at the time of purchase - reducing time and the costs associated with manual expense claiming processes. If an expense has been pre-approved, then it is automatically recognised by the system at the time of purchase – saving the purchaser time in filling out the expense claim.
- **Improved compliance:** In a perfect world corporate cards would only be used for legitimate businesses purposes. Unfortunately, such a world is not reality and large organisations spend a lot of money on staff to check whether expenses are legitimate and to ensure spending is appropriately classified. The integration of card and expense management systems reduces the potential for employee error or malpractice and enables non-compliance to be more readily identified by algorithms rather than costly labour.

CardHero+ reduces risk for charities

CardHero was developed to help Life Without Barriers comply with its duty of care.

CardHero has two distinct use cases that 8common markets under the CardHero and CardHero+ brands: CardHero+ is used to manage fund disbursement for the care of patients at not-for-profit organisations; CardHero is used for controlling employee spending and expense management at corporations and governments.

CardHero+ was inspired by the operational needs of Life Without Barriers (LWB). LWB has been an Expense8 client for nine years and is a not-for-profit that is largely funded by the National Disability Insurance Scheme (NDIS) – a government entity which provides funding for the care of the disabled.

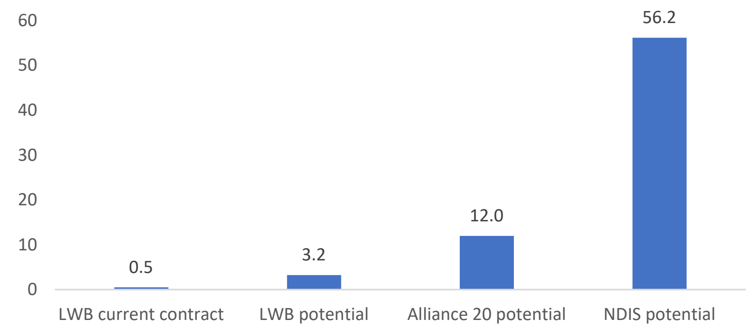
Misappropriation of funds across the care industry is being investigated by the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability (link). Life Without Barriers approached 8common to find a secure way to disburse funds to patients and carers that is compliant with the likely outcomes of the Royal Commission. CardHero was the solution.

Substantial upside from increasing not-for-profit presence

LWB was the first CardHero+ customer. 8common announced a $1.65m three-year contract with LWB on 24 Dec 2020. The contract is projected to bring in SaaS revenue of $0.5m per year from FY22 on 3,500 cards given to patients and staff. There is substantial revenue upside to CardHero+ from the following (Figure 12):

- **Rolling out across the entire Life Without Barriers organisation**. We estimate there are 27,000 possible cards at LWB (23,000 LWB clients and nearly 4,000 carers) which would generate $3.2m of annually recuring revenue for 8common at an average revenue per user of $120, which is slightly lower ARPU than the current LWB contract and is in-line with competitor pricing. We believe the previously announced contract is a test case, which is likely to be expanded if successful.
- **Rolling out across Alliance 20:** The Alliance 20 is an advocacy group of the twenty largest disability service providers in Australia of which LWB is one of the largest members. We estimate a revenue opportunity of $12m for 100,000 cards. We expect the Alliance 20 will follow LWB's lead if the feedback is positive.
- **Rolling out across all NDIS service providers:** The NDIS funds 400,000 participants (link). If all NDIS funding was administered via CardHero either directly (400,000 cards) or via carers (another estimated 68,000 cards) then we anticipate an annual revenue opportunity of $56m. The NDIS is currently reviewing its disbursement mechanism and 8common has submitted a proposal to provide it.

Figure 12: Recurring revenue potential for various CardHero+ scenarios ($m)



Source: Veritas research.

Opportunity to acquire existing fund disbursement programs

Digital cards are used in numerous situations including gift cards for retailers/shopping malls and relief payments provided by support organisations/local councils. The owners of the digital card disbursement programs often do not operate these programs profitability due to the use of manual processes used to reconcile the spending. CardHero automates these processes and could therefore acquire programs at the value of contracted income from the funder and then improve their profitability.

CardHero enhances Expense8 functionality

If all corporate cards in Australia switched to CardHero it would generate more than $200m in revenue for 8common and lower enterprise costs.

The CardHero product, used by corporations and governments, is currently preparing for Beta launch with anticipated go live in June 2021. After this we expect 8common will be able to sell it to existing clients and new users.

The process for existing Expense8 clients to adopt CardHero entails replacing bank issued corporate credit cards with CardHero cards. The adoption of CardHero improves the functionality of the entire expense system in the following ways:

- Reduced time required for employees to classify expenses due to integration between CardHero and Expense8.
- Avoidance of inappropriate expenses at the point of sale due to the application of enterprise administered spending rules.
- Expenses are monitored in real time with respect to business rules rather than arbitrary bank criteria.
- Reducing the cost of cards. Corporate credit cards typically cost an enterprise between $150 and $450 per employee per year (link) versus a CardHero card of $120 per year.

An addressable market of at least $200m

We estimate the addressable market for Card Hero to be more than $210m of recurring revenue per year. The immediate addressable market is the 1.75m commercial credit cards on issue in Australia as of January 2021 according to ABS data (link) multiplied by a $120 ARPU which gives $210m.

The market for employees that do not currently have a corporate credit card is more difficult to quantify. The onerous application process used by banks ensures that such cards are issued only when there are no other alternatives. Implementation of CardHero should reduce friction in the process. Accordingly, we think it reasonable to expect significantly more employees in an organisation will receive CardHero cards than ever received a corporate credit card. Typically, corporate credit cards are issued to just 10-15% of employees in a large organisation.

An informal target for 100,000 cards

8common management have an informal target to achieve 100,000 CardHero cards within the next few years. We estimate delivering on this target would give $12m of annually recurring revenue and gross profit of $6m. We view the target as eminently achievable, and we forecast 100,000 users by June 2024 and 77,500 average users throughout the FY24 year.

The most likely source of these users is existing clients. 8common currently has around 160,000 clients which would generate $19m of revenue if all were CardHero users. This does not consider the revenue upside from giving CardHero cards to employees that do not currently have a corporate card. For instance, we estimate that 90% of NSW government employees with a corporate credit card use Expense8 however only 25% of all employees are users.

An experienced management team

8common was founded in 2014 by Chairman Nic Lim. The company has a board and senior management team with a long tenure and considerable success in technology ventures.

Nic Lim, co founder of Catcha Group, is 8common's Executive Chairman, founder and largest shareholder.

Nic Lim is 8common's Executive Chairman, founder and largest 8common shareholder. Nic co-founded south-east Asian tech incubator Catcha Group in 1999 where he worked in an operational role until 2003. Nic remained a shareholder and continued to serve on Catcha Group boards until 2010. Catcha oversaw the successful expansion and listing of several companies including iProperty (ASX: IPP) and iCarAsia (ASX: ICQ).

iProperty was listed in September 2007 with a share price of $0.25 and market capitalisation of $26m and was acquired by REA in February 2016 for $4.0 per share (a 1,500% return) valuing the equity at $751m. iCarAsia listed in September 2012 with a market capitalisation of $28m and is currently has a market capitalisation of $131m.

After leaving Catcha Group Nic worked for UBS, Credit Suisse and Morgan Stanley and co-founded technology incubator 8capita. 8capita has provided venture funding to more than 50 companies globally including HiPages (HPG.ASX, $269m market capitalisation), Lob and AirHelp. Nic owns 13.2% of 8common shares outstanding.

Andrew Bond, CEO, has successfully grown user numbers and SaaS revenues since becoming CEO in 2019.

Current CEO, Andrew Bond joined in August 2015 after holding roles at Woolworths, Satori Group and AMP. He was appointed CEO in 2019 after several years in management roles including Chief Operating Officer. He has driven the company, in partnership with Nic, to EBITDA profitability in 1H20 (pre-COVID), delivered steady growth in user numbers and built the CardHero business. Andrew has 30,000 shares and 2.65m options exercisable at $0.091 per share.

Nyap Liou "Larry" Gan is a non-executive director and former managing partner of Accenture Asia.

Nyap Liou "Larry" Gan has been a non-executive director of 8common since listing and helped fund the company in its early stages. Larry has extensive experience in finance working 26 years at Accenture including as managing partner of ASEAN and Asia for four and three years, respectively. He also managed Accenture's multi-billion-dollar Asia Pacific Venture Fund for three years. Larry was a non-executive director in iProperty for two years until October 2009 and Chairman of Catcha Media BHD for four years until 2014. Larry is a current board member of Flexiroam Limited (FRX.ASX, $25m market capitalisation), Fatfish Internet Group (FFG.ASX, $99m market capitalisation), Rev Asia BHD (REV.KLSE, A$11m market cap) and Cloudaron Group BHD (CLOUD.KLSE, A$13.2m market cap). Larry owns 7.2% of 8common.

John Du Bois, non-executive director, was formerly the MD of SAP Asia Pacific and Japan and CEO/Chairman of Senetas.

John Du Bois was appointed a non-executive director on 11 October 2018. Prior to this John worked for 9 years at SAP including as the Managing Director of Asia Pacific and Japan. John also served as the Chairman and CEO for more than six years at Senetas (SEN.ASX, $54m market capitalisation) a software company with a significant Government footprint.

Adrian Bunter, non-executive director, is deeply involved in the Australian venture capital ecosystem.

Adrian Bunter has been a non-executive director since listing. Adrian is an executive director of Venture Advisory – an Australian based corporate advisory firm for early-stage companies and is a longstanding member of the management committee of Sydney Angels, a not-for-profit angel investment membership organisation.

SaaS revenue to grow to $15m by FY24

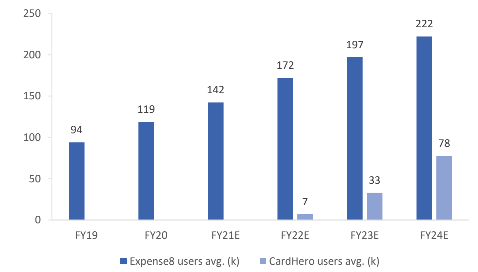
A modest uptake in CardHero gives rise to a six-fold increase in group SaaS revenues over the next four years due to CardHero's superior ARPU.

Growth in user numbers is the primary driver of value creation at 8common. We forecast that the average number of Expense8 users should steadily grow to 222,000 in FY24 versus 160,000 currently (Figure 13). A major driver of growth in Expense8 is likely to be the roll-out of shared services across the Australian Government. Government departments that are part of Expense8 aligned software hubs should contribute around 30,000 incremental users over the forecast period. The remainder are likely to come from the addition of new Government departments and organic user growth within existing clients.

We forecast that CardHero should grow from 3,500 contracted users currently to 100,000 by June 2024 – the company's informal target - which provides a 78,000 average in FY24 (Figure 13). The main drivers of the growth are: the roll-out of more cards to Life Without Barriers; other Alliance 20 firms adopting CardHero and existing Expense8 clients opting for CardHero cards over corporate cards. Management have indicated that there is a high level of interest in the CardHero product from existing clients and that the main obstacle to sales is finishing the product testing which is scheduled for completion in June 2021.

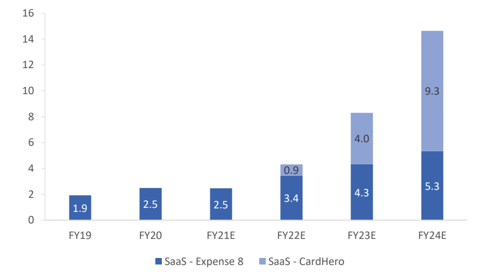
We forecast that Expense8 ARPU should rise from $17 in FY21 to $24 in FY24 due to a resumption of normal travel post-COVID. ARPU averaged $21 for the twelve months to March 2020 (pre-COVID). We forecast CardHero ARPU of $120 (less than the average corporate credit card). Multiplying the average number of users by ARPU gives $15m of group SasS revenue by FY23 (Figure 14) which is 6x higher than the $2.5m reported in FY21. The higher ARPU of CardHero explains its rapid revenue contribution.

Figure 13: Average user numbers (k)



Source: Company data, Veritas research

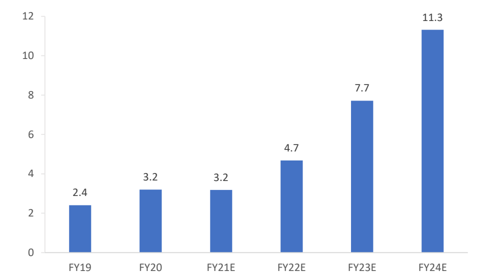
Figure 14: SaaS revenue forecasts ($m)



Source: Veritas, Company

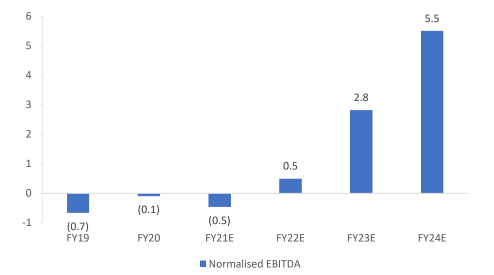
We forecast the group gross margin will moderate from 81% in FY21 to 65% in FY24 due to mix. In particular we forecast that Expense8 SaaS is 90% gross margin, CardHero SaaS is 50% gross margin and Implementation is 65% gross margin. Accordingly, we forecast gross profit should more than triple to $11m in FY24 (Figure 15). Leverage over fixed costs leads to EBTIDA of $5.5m in FY24 (Figure 16).

Figure 15: Gross profit forecasts



Source: Company data, Veritas research

Figure 16: EBITDA forecasts



Source: Veritas, Company

The company is well capitalised with $4m of cash, no financial debt and $0.4m finance leases reported in 1H21. We forecast that the cash balance should grow to $7.8m by FY24 without the issuance or redemption of any debt or equity. The company reported positive operating cash flows over the six months to December 2020. We forecast operating cash flow of -$0.2m in 2H21 due to a working capital unwind and positive operating and free cash flow from FY22 onward due to a growing contribution from CardHero.

Fair value of 50c per share

Our DCF derived fair value is 50c per share.

Our DCF derived fair value for 8Common is 50c per share (Figure 17). The primary assumptions of the DCF include sales growth fading to 2.0%, a terminal EBITDA margin of 35% which is appropriate for software company with 60-70% gross margins, terminal capex to depreciation of 1.0x, a WACC of 8% and a terminal EV/Revenue multiple of 3.6x.

Figure 17: DCF valuation for 8common

Year end June	Units	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	TV
Revenue	$m	6.1	11.1	17.5	24.9	28.6	31.5	34.6	37.0	38.1	38.9	39.7
Revenue growth	*%*	*55.0*	*83.0*	*57.4*	*42.2*	*15.0*	*10.0*	*10.0*	*7.0*	*3.0*	*2.0*	*2.0*
EBITDA	$m	0.5	2.8	5.5	8.7	10.0	11.0	12.1	13.0	13.4	13.6	13.9
EBITDA margin	*%*	*8.2*	*25.4*	*31.5*	*34.9*	*35.0*	*35.0*	*35.0*	*35.0*	*35.0*	*35.0*	*35.0*
EBIT	$m	0.1	2.1	4.5	7.2	8.3	9.1	10.0	10.7	11.1	11.3	11.5
Tax rate	*%*	*27.5*	*27.5*	*27.5*	*27.5*	*27.5*	*27.5*	*27.5*	*27.5*	*27.5*	*27.5*	*27.5*
NOPAT	**$m**	**0.1**	**1.5**	**3.3**	**5.2**	**6.0**	**6.6**	**7.3**	**7.8**	**8.0**	**8.2**	**8.3**
DA	$m	0.4	0.7	1.0	1.5	1.7	1.9	2.1	2.2	2.3	2.3	2.4
Margin	*%*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Working capital	$m	0.2	0.5	0.4	0.4	0.2	0.1	0.2	0.1	0.1	0.0	0.1
As % of incremental sales	*%*	*0.1*	*0.1*	*0.1*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Capex	$m	-0.3	-1.3	-2.3	-2.3	-1.9	-1.9	-2.1	-2.2	-2.3	-2.3	-2.4
Capex/D&A	*x*	*0.8*	*2.5*	*1.5*	*1.2*	*1.1*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
FCF	**$m**	**0.3**	**1.4**	**2.4**	**4.7**	**6.0**	**6.8**	**7.4**	**7.9**	**8.1**	**8.2**	**8.5**
Discount factor	%	93%	86%	79%	74%	68%	63%	58%	54%	50%	46%	
NPV of FCF	**$m**	**0.3**	**1.2**	**1.9**	**3.5**	**4.1**	**4.3**	**4.3**	**4.3**	**4.0**	**3.8**	

Item	Units	Value
NPV of the forecast period	$m	31.7
NPV of terminal value	$m	65.4
NPV of cash flows	**$m**	**97.2**
Add: net cash	$m	3.6
Fair value of equity	**$m**	**100.8**
Fair value of equity per share	**$ps**	**0.50**
Share count	m	200

Item	Units	Value
WACC	%	8.0
Terminal growth	%	2.0
Terminal EBITDA margin	%	35.0
Terminal value nominal	$m	141
Terminal EV/Revenue	x	3.6
Terminal EV/EBITDA	x	10.2

Source: Veritas estimates

A 73% EV/Revenue discount to peers in FY23

8common trades at an EV/Revenue multiple of 2.7x in FY23, a 73% discount to the peer group average.

On our forecasts 8Common is the highest growth company in the relevant Australian/US SaaS universe with a 44% three-year forecast revenue CAGR vs. peers at 26% (Figure 18). 8common is also one of the cheapest trading on EV/Revenue of 2.7x in FY23, a 73% discount to the 10.1x peer average. 8common also looks cheap on an EV/EBITDA of 10.8x in FY23, a 78% discount to the sector average of 50x. Our $0.50 per share fair value puts 8common on EV/Revenue and EV/EBITDA multiples of 8.7x and of 34x respectively in FY23.

Peers have been acquired at EV/Revenue multiples in excess of 10x.

It is also worth noting comparable transactions in the expense management software industry including: SAP acquiring Concur for US$8.3bn and an EV/Revenue multiple of 12x in September 2014 (link) and Chrome River acquiring Certify for more than US$1bn and an EV/Revenue multiple of approximately 10x in March 2019 (link).

Figure 18: 8common peer valuation

Stock	Code	Price	Mkt Cap	EV	EV/Revenue (x)				EV/EBITDA (x)				P/E (x)				EBITDA Margin (%)			
		LC	LC m	LC m	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3
8common	8CO-ASX	0.17	34.1	30.4	8.1	7.8	5.0	2.7	N/A	N/A	61.4	10.8	N/A	N/A	547.0	22.2	-2.5	-11.7	8.2	25.4
Technology One Limited	TNE-ASX	9.48	3,071	2,975	9.9	9.4	8.8	8.2	29.1	24.9	21.6	18.9	48.3	45.3	36.9	35.0	34.2	37.8	40.6	43.1
Whispir Ltd	WSP-ASX	3.42	399	388	9.9	7.8	6.1	4.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-14.3	-7.2	-4.5	-0.5
Frontier Digital Ventures Ltd.	FDV-ASX	1.39	477	411	19.7	7.8	6.0	4.9	N/A	N/A	72.9	26.7	N/A	N/A	N/A	79.1	-26.1	-3.6	8.2	18.3
ELMO Software Ltd.	ELO-ASX	5.15	462	411	8.2	5.9	4.4	3.6	N/A	N/A	N/A	80.1	N/A	N/A	N/A	N/A	-8.4	-6.5	-0.8	4.5
Bigtincan Holdings Ltd	BTH-ASX	0.92	392	358	11.5	7.6	5.9	4.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-27.3	-25.0	-14.2	-7.3
ReadyTech Holdings Ltd.	RDY-ASX	1.68	169	159	4.0	3.2	2.3	2.1	10.2	8.5	6.1	5.6	18	17	13	12	39.6	38.0	37.4	38.1
Coupa Software, Inc.	COUP-USA	253	65,483	20,687	38.2	30.5	24.4	19.0	166	1,438	177	91	329	N/A	418	171	23.0	2.1	13.7	20.8
HubSpot, Inc.	HUBS-USA	438	21,787	21,008	23.8	18.1	14.4	11.5	188	143	110	77	332	281	197	140	12.7	12.7	13.1	15.0
Bill.com Holdings, Inc.	BILL-USA	144	13,288	12,442	78.9	58.6	44.3	32.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1248	-7.0	-9.4	-6.7	-4.7
Peer average					**22.7**	**16.5**	**12.9**	**10.1**	**98**	**404**	**78**	**50**	**182**	**114**	**166**	**281**	**2.9**	**4.3**	**9.7**	**14.1**

Stock	Sales (LC m)				Sales growth (%)				EBITDA (LC m)				EBITDA growth (%)				EPS (LC per share)			
	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3
8common	3.8	3.9	6.1	11.1	-1%	4%	55%	83%	-0.1	-0.5	0.5	2.8	N/A	N/A	N/A	469%	0.00	0.00	0.00	0.01
Technology One Limited	299	316	339	365	4%	6%	8%	7%	102	119	138	157	25%	17%	16%	14%	0.20	0.21	0.26	0.27
Whispir Ltd	39	50	64	84	26%	27%	29%	31%	-6	-4	-3	0	N/A	N/A	N/A	N/A	-0.10	-0.06	-0.06	-0.05
Frontier Digital Ventures Ltd.	21	53	69	84	36%	154%	30%	23%	-5	-2	6	15	N/A	N/A	N/A	174%	-0.05	-0.02	0.00	0.02
ELMO Software Ltd.	50	69	92	115	17%	39%	33%	25%	-4	-5	-1	5	N/A	N/A	N/A	N/A	-0.25	-0.27	-0.27	-0.23
Bigtincan Holdings Ltd	31	47	61	77	56%	52%	29%	26%	-8	-12	-9	-6	N/A	N/A	N/A	N/A	-0.04	-0.03	-0.03	-0.02
ReadyTech Holdings Ltd.	39	49	69	75	20%	25%	40%	9%	16	19	26	29	22%	19%	38%	11%	0.09	0.10	0.13	0.14
Coupa Software, Inc.	542	678	848	1,087	39%	25%	25%	28%	125	14	117	226	157%	-88%	711%	94%	0.77	-0.24	0.61	1.48
HubSpot, Inc.	883	1,162	1,462	1,819	31%	32%	26%	24%	112	147	192	272	34%	31%	30%	42%	1.32	1.56	2.22	3.13
Bill.com Holdings, Inc.	158	212	281	380	46%	35%	32%	36%	-11	-20	-19	-18	N/A	N/A	N/A	N/A	-0.17	-0.20	-0.16	0.12
Peer average	**2,836**	**3,640**	**4,553**	**5,694**	**31%**	**44%**	**28%**	**23%**					**59%**	**-5%**	**199%**	**67%**				

Source: FactSet, Veritas estimates. Note: Prices as per close of market on 24 March 2021.

8common is similar to Coupa, a US listed cloud-based expense management software provider, that has delivered a 1,350% return to shareholders since its IPO in 2016.

Could 8common be the next Coupa? Coupa sells SaaS based expense management software that is similar to 8common but without the payment card functionality (it shares a similar position on the IDC chart of major global expense software players, Figure 9). Coupa issued shares at $18 per share at its October 2016 IPO. In the first day of trading the share price increased 85%. The shares are currently trading at $261, a 1,350% return since listing. The performance of Coupa shows the attractive economics of a SaaS model when it reaches the inflection point. Consensus is forecasting Coupa revenue of US $678m to year ending Jan 2022 vs. $187m reported in FY18 – revenue growth of 262% over four years including acquisitions. We forecast 8common will grow revenue organically by 365% over the next four years.

8common has the potential to become the dominant integrated expense management and payment card platform for Australian enterprises. It is already a comparable size to the global market leader in the Australian Government sector. We forecast the group will generate $17.5m revenue at management's informal target for 100,000 CardHero cards by FY24, 365% growth versus FY20. We initiate coverage with a Buy recommendation and a fair value of $0.50 per share, 196% upside.

RATING

BUY – anticipated stock return is greater than 10%
SELL – anticipated stock return is less than -10%
HOLD – anticipated stock return is between -10% and +10%
SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

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Veritas Securities Limited
A.B.N. 94 117 124 535
AFSL No. 297 043
GPO Box 4877, Sydney, NSW, 2001
www.veritassecurities.com.au

Sydney
Level 4, 175 Macquarie Street
Sydney, NSW, 2000
Tel: (02) 8252 3200
Fax: (02) 8252 3299

Melbourne
Level 8, 350 Collins Street
Melbourne, VIC, 3000
Tel: (03) 8601 1196
Fax: (03) 8601 1180