EDISON

SLI Systems

Software & comp services

Positive long-term outlook

SLI Systems' (SLI) search and navigation products power the website search functionality for some of the world's highest-profile companies. Its subscription model provides a recurring revenue stream that should generate significant returns for shareholders when it reaches profitable scale. The company reported 27% growth in operating revenue to A$28.1m in FY15 and a gross margin of 74.4%. The company reported a 39% lift in annualised recurring revenue to NZ$34.6m in FY15. SLI had NZ$5.6m in cash at year end.

Creating long-term value through searches

SLI's search and navigation products are cloud-based products that increase sales conversions for e-commerce sites. Its competitive advantage is in providing search and navigation tools that learn from user behaviour and deliver a high-quality service, which minimises the effort required by the customer. The subscription-based model provides a low upfront-cost solution for customers and provides a rapid return on investment. From SLI's perspective, this helps to attract and retain customers, but results in an average two-year payback period due to the cost of implementation. Short-term losses will therefore increase as customers are added, but as the client base grows, the business should generate a high degree of recurring revenue at high margins.

Valuation: Long-term value potential

SLI continues to trade at a significant discount to its peers on an EV/sales basis and our DCF valuation, using a WACC of 12%, 2% terminal growth and 30% ARR CAGR, was NZ$2.78 prior to the FY15 result. At the time of publication, our forward estimates were still to be adjusted.

Edison estimates

Year end	Revenue (NZ$m)	EBITDA (NZ$m)	PBT (NZ$m)	EPS (NZ$)	EV/Sales (x)	Yield (%)
06/13	19.0	(1.4)	(1.6)	(2.9)	2.6	N/A
06/14	22.4	(5.4)	(5.4)	(8.6)	2.2	N/A
06/15	28.6	(7.4)	(7.2)	(11.7)	1.8	N/A
06/16e	33.8	(4.2)	(4.6)	(7.5)	1.5	N/A

Source: Edison Investment Research. Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Price*	**NZ$0.88**
Market cap	**NZ$54m**

*As at 26 August 2015

Net cash (NZ$m) at 30 June 2015 5.6

Share price graph



Share details

Code	SLI
Listing	NZX
Shares in issue	61.2m

Business description

SLI's core products are e-commerce site search and navigation tools that learn from customer behaviours to improve the relevance of search results and therefore increase sales conversions. Customers pay a monthly subscription based on the number of queries per month.

Bull

- Low-cost solution for retailers.
- Volume-based pricing.
- e-commerce growth rates.

Bear

- High implementation costs.
- Competition could erode retention rate.
- Training required for sales and marketing staff.

Analysts

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