

Fusionex International

GIANT = big data made easy

Capital markets event

Software & comp services

The capital markets event showed the investment community not only why Fusionex sees strong demand for its big data products (cost effective, easy to implement and use, delivering real returns), but also why it can match demand. Furthermore, the greater visibility provided into the applications of some users, notably Intel, and into the company's drive to make GIANT even more user friendly suggest to us that the market may be underestimating what Fusionex can do.

Year end	Revenue (MYRm)	PBT* (MYRm)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/12	31.3	15.1	7.3	0.0	41.5	0.0
09/13	44.4	20.5	8.6	2.0	35.2	0.6
09/14e	53.5	18.4	7.3	2.0	41.5	0.6
09/15e	68.0	23.9	9.4	2.1	32.2	0.7
09/16e	86.5	30.9	12.1	2.2	25.0	0.7

Note: *PBT and EPS are normalised, excluding acquired intangible amortisation, exceptional items and share-based payments.

Impressive capital markets event

Fusionex held a capital markets event on 18 November to demonstrate GIANT, its big data product offering. In the presentation, management drew on examples of applications of GIANT in a range of industries, from airports to hotels, media companies, retailers and even semiconductor manufacturers, describing and demonstrating how GIANT is being used to improve financial and operational performance and planning. The event also showed how easy GIANT is, as an integrated big data management and analytics product, for customers to set up and use, making clear to attendees not only why there is demand for GIANT, but also how Fusionex can meet the demand.

More applications and easier to use

The presentation provided insight into how GIANT can be used to answer the big data challenge of the Internet of Things (IoT), providing a flexible and cost-effective way to analyse and present the vast streams of data that can be generated by today's electronics devices – whether production process monitors, healthcare devices or smartphones. There were also glimpses into how, while larger competitors still seem bound by their proprietary platforms and interfaces, Fusionex's management wants to bring consumer market levels of usability to big data management and analysis.

Reverse DCF: More than achievable expectations

Our forecasts assume seven wins for GIANT in FY14 and looking ahead it is easy to see the potential of several times this number of deployments in the coming year and several times that again in subsequent years. These are the sorts of figures suggested by our reverse DCF analysis of the current (303p) share price (see overleaf). We do not regard these levels of incremental subscriptions as unrealistic and after the capital market event they could well be regarded as overly conservative.

26 November 2014

Price **303.0p**

Market cap **£130m**

£0.19/MYR

Net cash (MYRm) at end March 2014 22.2

Shares in issue 43.0m

Free float 47%

Code FXI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 15.4 (15.5) (4.8)

Rel (local) 9.7 (14.9) (5.7)

52-week high/low 748.0p 250.0p

Business description

Fusionex International is a software business providing data management and business intelligence and analytics products, including GIANT, a big data management and analysis toolset.

Next events

Full year results January 2015

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GIANT = big data made easy

GIANT: A proven product now ready to grow

In the presentations, management described applications of GIANT in a range of industries from airports to hotels, media companies, retailers and even semiconductor manufacturers. However, the fact that management can describe such a wide range of applications should not be taken to suggest that Fusionex has cast its net wide from the start. Management has been careful in its selection of pilot and early customers – mindful not only to deliver value for customers, but also to establish a bedrock of understanding, programming and skills that can be reapplied again across the same or similar industries. With this foundation established, we believe Fusionex is well positioned to fully widen the net and drive sales of GIANT as an established, proven and cost-effective product.

Sales process faster and wider

The strength of the business case and ease of application appears to be showing through for Fusionex in what is a remarkably short sales process for GIANT. Management reports that it is closing deals in less than two months, with one month now being considered normal. This is an industry where sales processes can be measured in years.

Management continues to work to develop the relationships with existing partners, to which the swathe of awards that Fusionex has won in recent years bear testimony, and it is still actively seeking new partners globally to improve both its market access and its technology portfolio.

However, compared to its competitors Fusionex only has a small sales and marketing budget. Although this note focuses on the company's ability to deliver, the key constraint on maximising shareholder value in the long term could well be global market awareness of GIANT and its capabilities. Greater brand and product awareness, however achieved, could make the difference between whether we can talk in terms of hundreds of implementations, as we do at present (see reverse DCF below), or thousands.

GIANT meets the Internet of Things

Perhaps the most impressive illustration of the potential and power of GIANT was the demonstration of the relay control monitoring application that Fusionex has implemented for Intel. This was impressive not simply because it showed Fusionex working with and delivering measurable and visible value for one of the world's leading companies, but because it gave a glimpse of the potential that GIANT and big data have when combined with the Internet of Things.

Drawing on multiple sources of information, the system that Fusionex has developed with Intel constantly monitors and analyses approximately three thousand variables from dozens of sources to predict failures in control relays in the production process. Downtime in a semiconductor fab costs hundreds of thousands, if not millions, of dollars per hour, so the business case for this application is clearly compelling when GIANT costs a fraction of these potential losses. Previously the high capital cost and technical challenges made such monitoring and predictive analysis prohibitively expensive. A White Paper describing Intel and Fusionex's collaboration, of which the control relays work is only a part, is available on the Fusionex website at: <http://www.fusionex-international.com/Products/Analytics-Big-Data>.

The concept of the Internet of Things has been around for several years, but actually using the vast, constant flow of data that it promises has been a major challenge. The number of data analytics applications in environments where there are many networkable, data-generating devices (for example manufacturing, utilities, or healthcare) and which can now be described as realistic is almost countless. These are not the sort of applications that are addressable with the high capital

and implementation costs of the industry big guns (IBM, SAP, Oracle etc), but they would appear ideally suited to a lower-cost and flexible offering such as GIANT.

Bringing consumer market usability to big data

While most of the demonstrations dealt with the current product offering, there were a few indications of what might be available in future releases of GIANT. Management is intent on making GIANT as easy to use as possible and was able to demonstrate the analysis and presentation of data with predictive functionality. Much as a mobile phone can suggest complete words as one composes a text message, so GIANT could suggest which data and analysis function or chart should be used together.

US IPOs could spark further interest

Although the second half of this year has seen the big data industry newsflow subside, this was reversed in November with Hortonworks' filing for an IPO. Hortonworks, a partner of Fusionex, is the leading Hadoop provider for Microsoft-based systems. We expect this potential IPO to stimulate further investor interest in the big data space, potentially putting Fusionex on the radar screen of large-cap and generalist investors internationally. The talked of valuation for Hortonworks, of more than \$1bn on revenues of \$33m in the year to 30 September, suggests an EV/Sales in excess of 30 times. The read-across for Fusionex (EV/Sales y/e September 13x) is, of course, far from direct. Fusionex still has non-big data business and is focused more on the skills and IP of making things work together rather than on one key component of the big data story, as with Hortonworks. However, the rumoured Hortonworks IPO valuation does suggest that informed investors are willing to pay very high multiples for the kind of exposure to big data technologies and markets that Fusionex operates in.

Reverse DCF suggests more than achievable sales expectation

Our favoured valuation approach for high-growth technology companies like Fusionex is to apply a reverse DCF methodology – finding a potential scenario which, when applied to our DCF model, yields a share price equivalent to the current share price. A scenario that matches the current 303p share price, using a cost of capital of 11% and terminal growth rate of 3%, is shown in Exhibit 1 below.

Our DCF model assumes a price per GIANT subscription of \$400,000 and, given that prices will be a fraction of the alternative offering from the supermajors (SAP, IBM, Oracle et al), we have no reason to remodel this input. We expect costs to increase, but note that because we are modelling a subscription-based model the costs are related more to the incremental subscriber numbers than the overall revenues numbers; this leaves implementations as the key variable.

Our forecasts are based on seven wins in the first nine months and the company set itself a target of 10, which could well have been matched or beaten in light of the confident tone of the trading statement. We do not regard the incremental sales figures set out in the scenario below as unrealistic. In light of the ease of use demonstrated in the presentations and the fact that a good proportion of implementations will be roll-outs or near-replicas of work carried out previously, the volumes implied could well be seen as overly conservative.

Exhibit 1: DCF Scenario to match current share price (303p)

	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e
GIANT Units (incremental)	7	18	35	54	80	97	99	97	73	56
GIANT Units (cumulative, recurring)	7	25	60	114	194	291	390	487	560	616
GIANT Revenues (MYRm)	2	12	28	53	90	136	182	227	261	287
Other Revenues (MYRm)	51	56	59	61	63	64	66	67	68	70
Total Revenues (MYRm)	53	68	87	114	153	200	248	294	330	357
Total Revenues growth	20%	27%	27%	32%	34%	31%	24%	19%	12%	8%
Operating Margin	35%	36%	36%	40%	46%	51%	54%	56%	56%	55%
Operating Profit (MYRm)	19	24	31	45	71	102	134	165	185	197

Source: Edison Investment Research

Exhibit 2: Financial summary

Year end 30 September	MYR000s	2012	2013	2014e	2015e	2016e
		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		31,315	44,423	53,474	68,023	86,522
Cost of Sales		(8,085)	(10,090)	(12,507)	(14,610)	(17,192)
Gross Profit		23,230	34,333	40,967	53,413	69,330
EBITDA		16,364	22,478	22,369	31,129	40,341
Operating Profit (before amort. and except.)		15,380	20,840	18,973	24,483	31,395
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		15,380	20,840	18,973	24,483	31,395
Net Interest		(281)	(340)	(536)	(536)	(536)
Profit Before Tax (norm)		15,100	20,500	18,438	23,947	30,859
Profit Before Tax (FRS 3)		15,100	20,500	18,438	23,947	30,859
Tax		(1,995)	(1,488)	(2,028)	(2,634)	(3,395)
Profit After Tax (norm)		13,105	19,012	16,409	21,313	27,466
Profit After Tax (FRS 3)		13,105	19,012	16,409	21,313	27,465
Average Number of Shares Outstanding (m)		35.0	41.9	43.0	43.0	43.0
EPS - normalised (p)		7.3	8.6	7.3	9.4	12.1
EPS - normalised and fully diluted (p)		7.3	8.6	7.3	9.4	12.1
EPS - (IFRS) (p)		7.3	8.6	7.3	9.4	12.1
Dividend per share (p)		0.0	2.0	2.0	2.1	2.2
Gross Margin (%)		74.2	77.3	76.6	78.5	80.1
EBITDA Margin (%)		52.3	50.6	41.8	45.8	46.6
Operating Margin (before GW and except.) (%)		49.1	46.9	35.5	36.0	36.3
BALANCE SHEET						
Fixed Assets		15,477	49,077	57,181	64,036	70,090
Intangible Assets		8,115	13,642	21,592	28,592	35,092
Tangible Assets		7,361	35,435	35,589	35,443	34,998
Investments		0	0	0	0	0
Current Assets		17,586	72,678	76,779	87,845	106,441
Stocks		0	0	0	0	0
Debtors		7,273	10,287	10,253	12,046	14,327
Cash		10,313	62,392	66,526	75,799	92,114
Other		0	0	0	0	0
Current Liabilities		(7,312)	(7,345)	(9,301)	(10,649)	(12,811)
Creditors		(7,072)	(6,377)	(8,332)	(9,680)	(11,843)
Short term borrowings		(239)	(969)	(969)	(969)	(969)
Long Term Liabilities		(7,083)	(27,894)	(27,894)	(27,894)	(27,894)
Long term borrowings		(5,921)	(26,776)	(26,776)	(26,776)	(26,776)
Other long term liabilities		(1,162)	(1,117)	(1,117)	(1,117)	(1,117)
Net Assets		18,668	86,516	96,766	113,338	135,826
CASH FLOW						
Operating Cash Flow		17,373	21,459	24,358	30,683	40,223
Net Interest		(268)	3	(536)	(536)	(536)
Tax		(1,278)	(1,643)	(2,028)	(2,634)	(3,395)
Capex		(3,919)	(35,185)	(11,500)	(13,500)	(15,000)
Acquisitions/disposals		0	0	0	0	0
Financing		0	52,789	0	0	0
Dividends		(10,565)	(5,959)	(6,160)	(4,741)	(4,978)
Net Cash Flow		1,342	31,464	4,135	9,273	16,315
Opening net debt/(cash)		(2,784)	(4,153)	(34,646)	(38,781)	(48,054)
HP finance leases initiated		0	0	0	0	0
Other		27	(971)	0	0	0
Closing net debt/(cash)		(4,153)	(34,646)	(38,781)	(48,054)	(64,368)

Source: Edison Investment Research

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