WANdisco

Trading update

Bookings ahead, expanding platform for growth

Software & comp services

WANdisco's strong bookings momentum ($22.5m, +45%y-o-y, vs Edison $21.7m) in FY17 was more than matched by the strategic progress during the year. For the core big data business we upgrade our bookings estimate by 21% and now forecast 40%+ y-o-y bookings growth for FY18 and FY19, partially offset by a de-focus on the legacy SCM business. The company's platform for growth looks exceptionally strong and we see scope for a further acceleration driven by adoption of Fusion for more use cases, sales through more partners and supported by very attractive market dynamics.

Year end	Revenue ($m)	EBITDA ($m)	PBT* ($m)	EPS (c)	Net cash ($m)	EV/Sales (x)
12/16	11.4	(7.5)	(16.4)	(46.9)	7.6	39.2
12/17e	17.5	(2.8)	(10.2)	(24.4)	23.4	25.6
12/18e	22.2	(2.8)	(10.4)	(23.8)	23.7	20.1
12/19e	28.4	(1.9)	(9.9)	(22.4)	26.0	15.7

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Big data drives bookings beat

Momentum remained strong in H2 with FY17 bookings growing by 45% y-o-y to $22.5m and bookings for the core big data business growing by 121% to $15.7m (Edison $13m). The trading update does not give any P&L figures, but FY17 net cash stood at $23.4m supported by the December fund-raise ($22m gross at 550p). Strategic progress made over course of the year should lay the platform for an acceleration in growth from here. Revenues from established partners (IBM, Oracle) should continue to build while newer partners such as Microsoft, Virtustream and Amazon should add increasingly to the mix. We also anticipate further partnerships with leading cloud/enterprise players to be formalised, strengthening the platform for growth in future years.

Upgrading top line, investing to maximise potential

We nudge up our FY18 bookings estimate from $28m to $28.5m (27% y-o-y growth), upgrading the core big data bookings by 21% to $22.3m partially offset by a reduction in SCM from $9.5m to $6.2m. We forecast 33% bookings growth in FY19, again all driven by 43% growth in big data. We believe there is scope for upside, which could be significant if progress in developing OEM partners progresses to plan. Management's focus will be on maximising the revenue opportunity through investing in supporting channel partners and product development while at least maintaining cash resources. Hence we forecast the business to break even at a cash-generation level in FY18 before returning to positive cash generation in FY19.

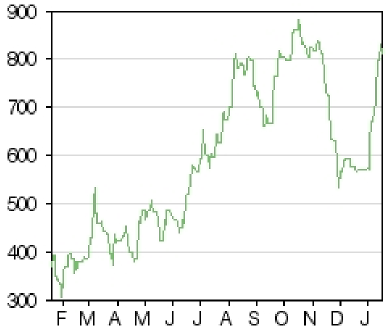
Valuation: Pricing in a further acceleration

Progress in FY17 has significantly strengthened WANdisco's credentials for delivering sustained strong growth. This is reflected in the rating of 15.7x FY19e sales. The company's potential strategic attractiveness is also a factor. We believe the further strong deal strong flow or strategic partner development could be the key catalysts for more aggressive growth assumptions to be priced in.

17 January 2018

Price	**810p**
Market cap	**£331m**
	US$1.37/£
Net cash ($m) at end FY17	23.4
Shares in issue	40.9m
Free float	92%
Code	WAND
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	42.1	(5.8)	195.6
Rel (local)	37.1	(8.6)	175.2
52-week high/low		881.5p	293.0p

Business description

WANdisco is a distributed computing company. It has developed a suite of solutions based around proprietary replication technology, which solve critical data management challenges prevalent across cloud computing, big data and the ALM software markets.

Next events

Full year results	March 2019

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Edison profile page

WANdisco is a research client of Edison Investment Research Limited

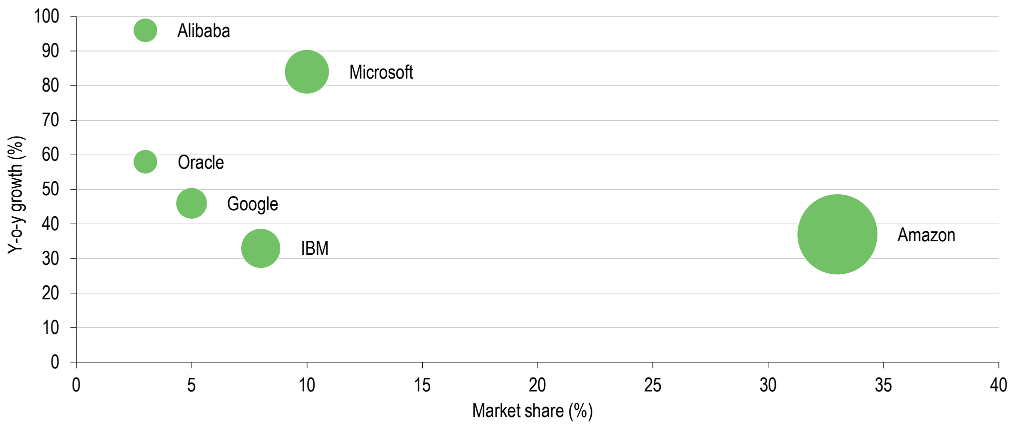
Enviable platform for growth

At the centre of a significant growth trend

We reiterate our view that the migration of enterprise data to the cloud remains the major ongoing technology shift taking place in the enterprise market today. The rate at which data and computing are moving to cloud platforms continues to gather pace. It is also the technology cycle on which the development of many others such as big data analytics and AI depend.

This momentum was highlighted in the Q317 earnings season, with the four largest global cloud providers by market share – Amazon AWS, Alphabet (Google Cloud), Microsoft (Azure) and IBM – growing their combined cloud computing businesses by 40% y-o-y to $19bn.

Exhibit 1: LTM revenue growth and market share of key partners



Source: WANdisco, Edison Investment Research, company reports (LTM from Q217)

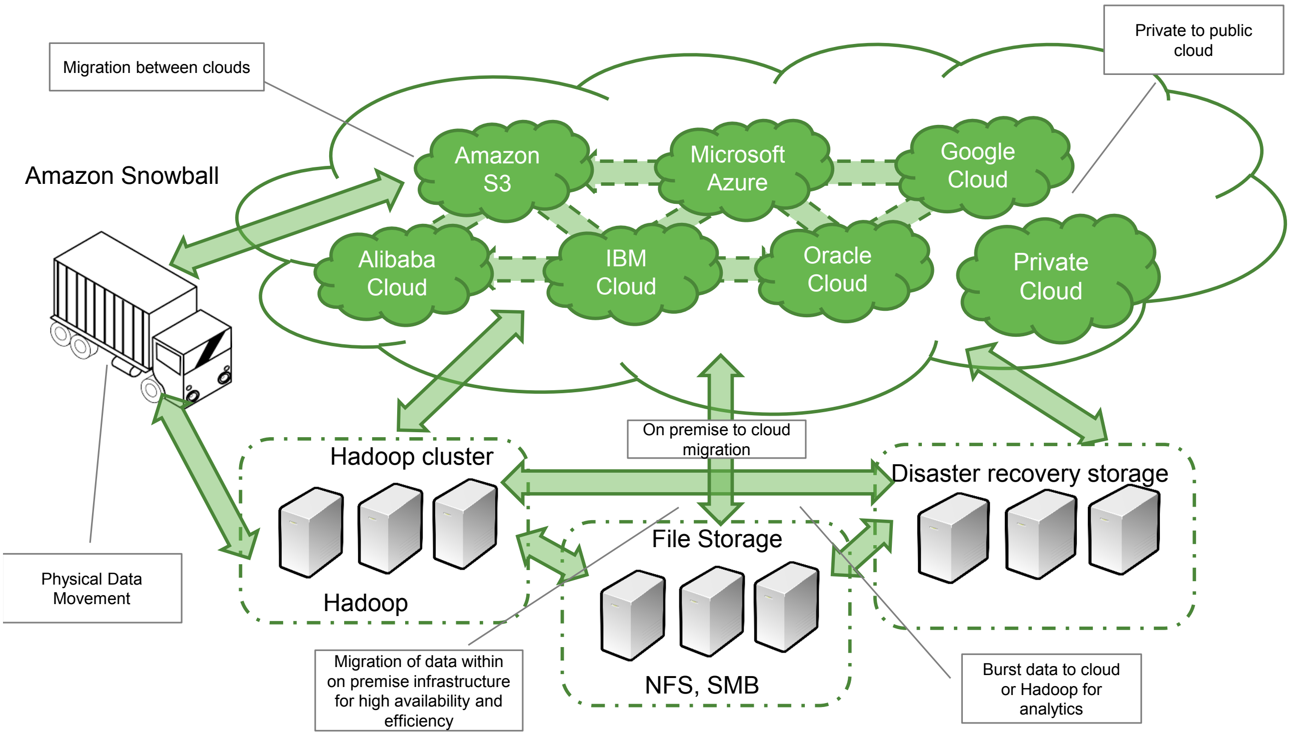
We expect growth rates to remain very strong. We are in effect witnessing a significant land grab among major technology companies as they seek to capitalise on the trend and attract enterprises to “sticky” cloud services. Adoption of migration services such as AWS Snowball, or Microsoft’s Azure Data Box (both of which are integrated with Fusion) could accelerate the trend, while companies with more of a legacy in the on-premise world, such as SAP (Upgrade2Success) and Accenture (Cloudshaper, Accelerate and Cloudbuilder), have all launched new initiatives that aim to drive the migration from on-premise to cloud.

Enabling hybrid cloud adoption

The migration of data to the cloud should not be thought of as one-way traffic. The vast majority of enterprises will continue to run hybrid environments, using a combination of on-premise, private and public cloud infrastructure. In fact, the maturation of hybrid cloud offerings is seen as one of the key drivers of enterprise cloud adoption and Microsoft’s more developed hybrid capability has been cited as being one of the key factors that has enabled Azure to take market share from AWS over course of the last year.

WANdisco also looks exceptionally well placed to both support enterprise hybrid cloud adoption and to benefit from it, through enabling data to be replicated between data sources without incurring downtime and while ensuring data consistency. The technology can be used to replicate data from one data centre to another, from a data centre to the cloud and back (to enable analytics to be run for example), from one cloud platform to another or to a mobile data centre – such as Amazon’s Snowball solution for large-scale cloud migrations.

Exhibit 2: Data can be stored and moved across multiple clouds and locations



Source: Edison Investment Research

Credentials with tier one partners and customers strengthened

While the potential for WANdisco's technology has always looked compelling, one can generally get a much better gauge of a company's prospects by looking at who they work with and how much customers spend. Over the past 12 months, WANdisco's credentials have significantly strengthened in this regard.

IBM: the company signed its two largest deals ever, both worth $4m+ through the IBM OEM agreement, demonstrating the ability of the OEM model to deliver significant revenue growth. We expect further sales growth through this agreement in FY18.

Dell/Virtustream: in November, the company signed its second OEM agreement, with Dell/EMC's cloud platform and software business. We understand that the deal has a $3m+ minimum commitment, but believe that there is scope for this to be exceeded relatively quickly and look for further progress in FY18.

Amazon AWS: the company entered into a number of collaborations with the cloud platform market leader, the most significant of which was Fusion's integration into AWS's Snowball solution for enabling enterprises to migrate very large amounts of data into the cloud. We believe Fusion could benefit from proactive support from AWS's sales team and look for further progress in FY18.

Microsoft: similar to AWS, WANdisco has unveiled a number of integrations with Microsoft Azure, the most significant of which was Fusion's integration into Microsoft's Azure Data Box solution for uploading very large volumes of data to the cloud. We believe the complementarities with Microsoft are particularly strong given Microsoft's capability in hybrid cloud and believe it could be an important driver of revenues in FY18 and beyond.

Expect further expansion and deepening of partner network in FY18

The $22m December fund-raise was carried out specifically to support a faster roll-out of the company's OEM strategy. The funds will be used to support the commercial and technical integration with existing partners and to assist with on-boarding of new ones in parallel. The company's success in expanding and deepening its channel partner network will be the key lead indicator for prospects in FY19 and beyond. The recent hire of a VP signals management's intention to accelerate initiatives to apply the company's patented replication technology in new markets.

Estimate changes

The bookings beat ($22.5m vs $21.7m forecast) was driven entirely by the core big data business, where bookings grew by 142% y-o-y to $15.7m Bookings for the cash cow, Source Code Management (SCM) business, dropped by 24% to $6.8m (Edison $8.7m).

Year-end net cash was $23.4m, with $27.3m of cash and $4m of debt, supported by the December fund-raise. We understand that the cash for the $4.3m deal with a major financial institution signed in late December has not yet been received.

Our FY18 bookings estimate is nudged up from $28m to $28.5% (27% y-o-y growth), with the core big data bookings estimate upgraded by 21% to $22.3m (42% growth) offset by a reduction in SCM from $9.5m to $6.2m. We introduce estimates for FY19, forecasting 33% bookings growth, again all driven by big data (43% growth) with an ongoing drift in SCM. We believe there is scope for upside, which could be significant if progress in developing OEM partners progresses to plan.

WANdisco's focus will be on maximising the revenue opportunity of the business, while at least maintaining cash resources. Hence we forecast the business to broadly break even at a cash-generation level before moving back into positive cash generation in FY19.

Looking longer term, we believe that Progress in FY17 has significantly strengthened WANdisco's credentials for delivering sustained strong growth, while we believe with scale, the company's model should support attractive 25%+ EBITDA margins.

Exhibit 3: Estimate changes

$000s	2015	2016	2017e			2018e			2019e
	Actual	Actual	Old	New	% change	Old	New	% change	New
Bookings Big Data	2,500	7,100	13,000	15,700	21%	18,500	22,300	21%	32,000
Bookings SCM	6,500	8,400	8,700	6,800	-22%	9,500	6,200	-35%	5,800
Total Bookings	**9,000**	**15,500**	**21,700**	**22,500**	**4%**	**28,000**	**28,500**	**2%**	**37,800**
Revenue	**10,994**	**11,379**	**17,029**	**17,474**	**3%**	**21,748**	**22,228**	**2%**	**28,410**
Cost of Sales	(749)	(1,349)	(1,784)	(1,784)	0%	(2,349)	(2,480)	6%	(3,289)
Gross Profit	10,245	10,030	15,246	15,691	3%	19,399	19,748	2%	25,121
EBITDA	**(15,988)**	**(7,464)**	**(3,254)**	**(2,809)**	**-14%**	**(655)**	**(2,752)**	**320%**	**(1,879)**
Capitalised development cost	(8,369)	(5,860)	(6,497)	(6,497)	0%	(6,952)	(6,952)	0%	(7,438)
EBITDAC (adjusted for capitalised development)	(24,357)	(13,324)	(9,751)	(9,306)	-5%	(7,607)	(9,703)	28%	(9,317)
Operating Profit (before amort and except)	**(25,858)**	**(16,104)**	**(10,374)**	**(9,929)**	**-4%**	**(8,075)**	**(10,172)**	**26%**	**(9,599)**
Exceptionals	(614)	(32)	0	(1,500)			0		0
Share based payments	(4,057)	(1,787)	(1,400)	(1,400)	0%	(1,400)	(1,400)	0%	(1,400)
Operating Profit	(30,529)	(17,923)	(11,774)	(12,829)	9%	(9,475)	(11,572)	22%	(10,998)
Net Interest	(506)	(268)	(268)	(268)	0%	(268)	(268)	0%	(268)
Profit Before Tax (norm)	(26,364)	(16,372)	(10,642)	(10,197)	-4%	(8,343)	(10,440)	25%	(9,866)
EPS - (IFRS) (c)	(103.9)	(27.9)	(36.7)	(38.4)	5%	(24.8)	(27.8)	12%	(26.3)
Closing net debt/(cash)	(2,555)	(7,558)	(7,071)	(23,409)	231%	(10,376)	(23,660)	128%	(25,966)

Source: WANdisco data, Edison Investment Research

We focus our narrative on bookings and year-end net cash. P&L figures were not disclosed in the trading update. Forecasting revenues is complicated by the mix between IBM royalties (recognised upfront) and subscriptions, currently recognised over the lifetime of the contract. The application of IFRS 15 will further complicate the picture and the capitalisation of development spend further complicates the meaningfulness of profitability measures.

Valuation

WANdisco's rating stands at 20.1x FY18e EV/sales, dropping to 15.7x for FY19e. This is a premium to peers (a diverse range from c 2x to 11.3x). WANdisco's investment case has always been predicated on the potential for it to scale into a significantly larger, highly profitable business. We believe that its progress in FY17 has significantly strengthened its credentials.

Our DCF suggests sustained growth of c 37% (i.e. a touch higher than forecast for FY18 and FY19) through 2025 with EBITDAC margins growing to exceed 25%. In practice, we believe that if WANdisco continues to strengthen its platform of tier one channel partners, it should be well placed to grow faster than this. Most of the company's partners are growing their cloud revenues at a faster rate. With a broad addressable market, a strong IP position and an indirect sales model, healthy 25%+ margins should be readily achievable if execution remains good, although expect the emphasis to remain on growth over margins in the near to medium term.

Exhibit 4: DCG sensitivity to medium-term growth and margins

Bookings growth FY18		**30%**	**40%**	**50%**	**60%**	**70%**
Bookings CAGR FY16-25e		13%	23%	33%	43%	53%
Revenues 2020 ($m)		36,656	43,210	50,522	58,637	67,601
		Implied share price (p) (excluding dilution)				
Matured EBITDAC margin	15%	139	258	460	796	1,354
	20%	176	325	568	983	1,648
	25%	213	388	679	1,161	1,948
	30%	249	450	783	1,344	2,236
	35%	284	513	894	1,517	2,531

Source: Edison Investment Research. Note: EBITDAC = EBITDA considering capitalised R&D costs as expenses. WACC = 10%, reduced from 12.5% previously as the business is approaching cash flow break-even. TGR = 2%. Assumes a progressive eight-year fade in growth rate from 2018.

The company's potential strategic attractiveness should also not be ignored. We are seeing M&A from industry majors as they build out their cloud/hybrid could strategies – most recently with Microsoft buying Avere Systems, a high-performance storage vendor for an undisclosed amount. We believe that WANdisco could potentially be a good fit for a number of cloud/enterprise software players.

Exhibit 5: Financial summary

	$'000s	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		11,379	17,474	22,228	28,410
Cost of Sales		(1,349)	(1,784)	(2,480)	(3,289)
Gross Profit		10,030	15,691	19,748	25,121
EBITDA		(7,464)	(2,809)	(2,752)	(1,879)
Operating Profit (before amort and except)		(16,104)	(9,929)	(10,172)	(9,599)
Acquired Intangible Amortisation		0	0	0	1
Exceptionals		(32)	(1,500)	0	0
Share based payments		(1,787)	(1,400)	(1,400)	(1,400)
Operating Profit		(17,923)	(12,829)	(11,572)	(10,998)
Net Interest		(268)	(268)	(268)	(268)
Profit Before Tax (norm)		(16,372)	(10,197)	(10,440)	(9,866)
Profit Before Tax (FRS 3)		(10,047)	(15,394)	(11,840)	(11,265)
Tax		772	560	431	410
Profit After Tax (norm)		(15,600)	(9,637)	(10,009)	(9,455)
Profit After Tax (FRS 3)		(9,275)	(14,834)	(11,409)	(10,855)
Average Number of Shares Outstanding (m)		33.3	38.6	41.0	41.2
EPS - normalised (c)		(46.9)	(25.0)	(24.4)	(22.9)
EPS - normalised fully diluted (c)		(46.9)	(24.4)	(23.8)	(22.4)
EPS - (IFRS) (c)		(27.9)	(38.4)	(27.8)	(26.3)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		88.1	89.8	88.8	88.4
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		6,253	5,930	5,761	5,780
Intangible Assets		5,977	5,574	5,325	5,264
Tangible Assets		276	356	436	516
Investments		0	0	0	0
Current Assets		13,703	36,019	33,432	39,597
Stocks		0	0	0	1
Debtors		6,145	8,610	9,773	13,630
Cash		7,558	27,409	23,660	25,966
Other		0	0	0	1
Current Liabilities		(9,409)	(15,490)	(14,031)	(17,930)
Creditors & Deferred Income		(9,409)	(11,490)	(14,031)	(17,930)
Short term borrowings		0	(4,000)	0	0
Long Term Liabilities		(6,980)	(4,658)	(6,305)	(8,487)
Long term borrowings		0	0	0	0
Deferred Income		(6,980)	(4,658)	(6,305)	(8,487)
Net Assets		3,567	21,801	18,858	18,960
CASH FLOW					
Operating Cash Flow		(2,955)	356	7,339	9,903
Net Interest		(161)	(268)	(268)	(268)
Tax		690	560	431	410
Capex (inc capitalised R&D)		(5,924)	(6,797)	(7,252)	(7,738)
Acquisitions/disposals		0	0	0	0
Financing (net)		13,523	22,000	0	0
Dividends		0	0	0	0
Net Cash Flow		5,173	15,851	250	2,306
Opening net debt/(cash)		(2,555)	(7,558)	(23,409)	(23,660)
HP finance leases initiated		0	0	0	0
Other		(175)	0	0	0
Closing net debt/(cash)		(7,558)	(23,409)	(23,660)	(25,966)

Source: Company data, Edison Investment Research

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