

WANdisco

Microsoft to co-sell Fusion

WANdisco's co-sell agreement with Microsoft is possibly the company's most important partnership to date, strengthening the company's already enviable platform to capitalise on the rapid growth in cloud and hybrid cloud computing. Agreements with IBM, Alibaba, Dell/Virtustream and now Microsoft give a clear indication of the capability and uniqueness of Fusion. Near- and long-term prospects are reinforced as is the potential for WANdisco to grow into and exceed the current rating.

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	37.6
12/17	19.6	(0.6)	(7.8)	(18.6)	23.4	21.0
12/18e	24.6	(0.5)	(8.0)	(18.2)	20.8	16.8
12/19e	31.4	1.0	(6.8)	(15.3)	21.3	13.2

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

Microsoft to co-sell fusion

The co-sell agreement is essentially the same as an OEM in all respects other than that Fusion will still be branded WANdisco rather than Microsoft. Fusion will be taken to market as a packaged offering and Microsoft's channels will be incentivised to sell the product. As highlighted in our recent report, ([Alibaba OEM further strengthens prospects](#)) we believe that Microsoft has the potential to be a significant contributor to bookings this year and beyond. Microsoft is the second largest cloud platform provider globally and grew Azure revenues by 98% y-o-y. The company's capability in hybrid cloud has been a key factor in this growth and in this respect the complementarities between Fusion and Microsoft are strong.

Significant potential, first deals could be quite soon

The technical integration between the two solutions is already complete and we believe that deals are in the pipeline, meaning that initial deal flow is possible in H1 (H2 is more likely from the recent Alibaba OEM). We expect bookings/revenues from the IBM OEM agreement to continue to grow (\$8m+ in FY17) and believe that the Microsoft relationship has the potential to be at least as important. It also becomes clearer that WANdisco has a unique proposition, which could help advance negotiations with other cloud partners.

Near- and longer-term prospects further strengthened

We upgraded our FY18 and FY19 bookings by 7% and 5% respectively following the FY17 results (7 Mar) highlighting that further upgrades are possible. This partnership further reinforces that view, and for continued growth further out.

Valuation: Platform to outgrow its rating

WANdisco's EV/sales ratings of 16.8x and 13.2x for FY18 and FY19 respectively remain a premium to peers, although upgrades have narrowed the premium substantially and there is scope for more to come. WANdisco's investment case has always been predicated on the potential for it to scale into a significantly larger, highly profitable business. We believe the company is establishing a strong case to achieve this.

Partnership with Microsoft

Software & comp services

12 March 2018

Price 764.00p

Market cap £313m

US\$1.39/£

Net cash (\$m) at 31 December 2017 23.4

Shares in issue 40.9m

Free float 88%

Code WAND

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 10.7 29.0 59.2

Rel (local) 8.2 31.2 58.7

52-week high/low 881.5p 371.0p

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

AGM May 2018

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Exhibit 1: Financial summary

	\$'000s	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		11,379	19,637	24,640	31,448
Cost of Sales		(1,349)	(1,972)	(2,654)	(3,454)
Gross Profit		10,031	17,665	21,986	27,994
EBITDA		(7,464)	(580)	(514)	994
Operating Profit (before amort. and except.)		(16,104)	(7,494)	(7,728)	(6,520)
Acquired Intangible Amortisation		0	0	0	1
Exceptionals		(32)	0	0	0
Share based payments		(1,787)	(2,201)	(3,200)	(3,200)
Operating Profit		(17,923)	(9,695)	(10,928)	(9,719)
Net Interest		(268)	(315)	(315)	(315)
Profit Before Tax (norm)		(16,372)	(7,809)	(8,043)	(6,834)
Profit Before Tax (FRS 3)		(10,047)	(14,004)	(11,243)	(10,033)
Tax		772	489	409	365
Profit After Tax (norm)		(15,600)	(7,320)	(7,634)	(6,468)
Profit After Tax (FRS 3)		(9,275)	(13,515)	(10,834)	(9,668)
Average Number of Shares Outstanding (m)		33.3	37.8	41.0	41.2
EPS - normalised (c)		(46.9)	(19.4)	(18.6)	(15.7)
EPS - normalised fully diluted (c)		(46.9)	(18.6)	(18.2)	(15.3)
EPS - (IFRS) (c)		(27.9)	(35.8)	(26.4)	(23.5)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		88.1	90.0	89.2	89.0
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		6,251	6,393	6,223	6,226
Intangible Assets		5,977	5,581	5,326	5,244
Tangible Assets		274	812	897	982
Investments		0	0	0	0
Current Assets		13,704	33,366	27,503	29,499
Stocks		0	0	0	1
Debtors		6,145	5,969	6,721	8,164
Cash		7,559	27,397	20,782	21,333
Other		0	0	0	1
Current Liabilities		(9,409)	(17,167)	(17,122)	(22,248)
Creditors & Deferred Income		(9,409)	(13,167)	(17,122)	(22,248)
Short term borrowings		0	(4,000)	0	0
Long Term Liabilities		(6,980)	(7,058)	(6,821)	(9,961)
Long term borrowings		0	0	0	0
Deferred Income		(6,980)	(7,058)	(6,821)	(9,961)
Net Assets		3,566	15,534	9,784	3,516
CASH FLOW					
Operating Cash Flow		(2,944)	656	4,336	8,017
Net Interest		(161)	(257)	(315)	(315)
Tax		690	1,364	409	365
Capex (inc capitalised R&D)		(5,922)	(7,056)	(7,044)	(7,516)
Acquisitions/disposals		0	0	0	0
Financing (net)		13,523	21,188	0	0
Dividends		0	0	0	0
Net Cash Flow		5,187	15,895	(2,614)	551
Opening net debt/(cash)		(2,555)	(7,559)	(23,397)	(20,782)
HP finance leases initiated		0	0	0	0
Other		(175)	(57)	0	0
Closing net debt/(cash)		(7,559)	(23,397)	(20,782)	(21,333)

Source: Company data, Edison Investment Research

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