

WANDisco

Update

Strategic progress but inflection pushed to FY19

Newsflow thus far in January indicates that good strategic progress continues to be made. In signing its first multi-cloud deal and launching a joint engineered SQL product with IBM, WANDisco opens up two potentially significant opportunities, in cloud to cloud and relational database replication, respectively. We understand that a large strategic deal is still in the pipeline, but given that it was clearly not closed in FY18, we have reduced our FY18 estimates (detailed below). FY19 P&L estimates are unchanged, but have upside potential if the deal comes through.

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)	7.2	23.5
12/17	19.6	(0.6)	(7.8)	(18.6)	23.1	12.8
12/18e	18.7	(5.9)	(13.4)	(30.2)	13.0	14.0
12/19e	31.8	1.3	(6.5)	(14.1)	15.9	8.1

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

SQL product launch with IBM

Following on from signing its [first Multi-cloud deal](#), on 8 January WANDisco announced that it has launched a jointly engineered solution with IBM to replicate relational databases. This will enable companies to extend the live data benefits delivered by WANDisco Fusion across a much larger data set. Hence it should extend Fusion's attractiveness and addressable market for the technology and provide a boost to WANDisco's IBM channel (where the royalty percentage was increased to 50% from 30% in mid-2018). We believe that this capability could be extended to other key partners and note Microsoft's strong market share in SQL.

FY18 estimates reduced, expect acceleration in FY19

We have previously highlighted that FY18's financial outcome would be highly influenced by the timing of closure of a large strategic deal in the pipeline. We understand that negotiations remain very much live and that the scope of the engagement has potentially expanded. However, it is evident that this opportunity has not yet closed and consequently, we reduce our FY18 revenues by \$6.0m to \$18.7m and increase the EBITDA loss by \$5.4m to \$5.9m with year-end net cash reduced to \$13m from \$20m (cash neutral in H2). We leave our FY19 estimates unchanged. We continue to expect an acceleration in the rate of deal flow, and the closure of this large deal could drive upside to our forecasts.

Valuation: Strategic progress - platform for growth

We believe that WANDisco remains very well placed strategically in a cloud market that remains one of the largest and fastest growing domains of the global technology landscape. It is taking time to convert this progress into a sustainable inflection in growth, but WANDisco's deepening relationships with key strategic partners give us confidence that this is not far away. Amazon's acquisition of Israeli disaster recovery start-up CloudEndure for a reputed \$175m highlights the strategic potential of companies offering solutions to the major cloud providers' problems. Further news on progress with this major deal should affirm WANDisco's strong strategic position as well as giving our FY19 estimates substantial support.

Software & comp services

23 January 2019

Price 496p

Market cap £211m

US\$1.30£

Net cash (\$m) at 31 December 2018 (estimate) 13

Shares in issue 41.8m

Free float 92%

Code WAND

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 18.1 5.8 (37.5)

Rel (local) 14.2 7.7 (30.3)

52-week high/low 1250.0p 340.0p

Business description

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

Next events

Trading update January

FY results March

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Estimate changes

Exhibit 1: Estimate changes

\$000s	2016	2017	2018e	2018e	%	2019e	2019e	%
	Actual	Actual	Old	New	change	Old	New	change
Bookings Big Data	7,100	15,700	24,300	17,500	-28%	33,900	33,900	0%
Bookings SCM	8,400	6,800	6,200	6,200	0%	5,800	5,800	0%
Total Bookings	15,500	22,500	30,500	23,700	-22%	39,700	39,700	0%
Revenue	11,379	19,637	24,680	18,686	-24%	31,760	31,760	0%
Cost of Sales	(1,349)	(1,972)	(2,654)	(2,062)	-22%	(3,454)	(3,454)	0%
Gross Profit	10,031	17,665	22,027	16,624	-25%	28,306	28,306	0%
Cash costs ex cap dev cost	(17,494)	(18,245)	(22,500)	(22,500)	0%	(27,000)	(27,000)	0%
EBITDA	(7,464)	(580)	(473)	(5,876)	1142%	1,306	1,306	0%
Capitalised development cost	(5,860)	(6,303)	(6,744)	(6,744)		(7,216)	(7,216)	
EBITDAC (adjusted for capitalised development)	(13,324)	(6,883)	(7,217)	(12,620)	75%	(5,910)	(5,910)	0%
Operating profit (before amort. and except.)	(16,104)	(7,494)	(7,687)	(13,090)	70%	(6,208)	(6,208)	0%
Exceptionals	(32)	0	0	0		0	0	
Share-based payments	(1,787)	(2,201)	(3,200)	(3,200)		(3,200)	(3,200)	
Operating Profit	(17,923)	(9,695)	(10,887)	(16,290)	50%	(9,407)	(9,407)	0%
Net Interest	(268)	(315)	(315)	(315)		(315)	(315)	
Profit Before Tax (norm)	(16,372)	(7,809)	(8,002)	(13,405)	68%	(6,522)	(6,522)	0%
EPS - (IFRS) (c)	(27.9)	(35.8)	(25.9)	(38.3)	48%	(22.0)	(22.0)	0%
Closing net debt/(cash)	(7,175)	(23,102)	(20,486)	(13,013)	-36%	(21,026)	(15,899)	-24%

Source: WANdisco accounts, Edison Investment Research

Exhibit 2: Financial summary

	\$000s	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		11,379	19,637	18,686	31,760
Cost of Sales		(1,349)	(1,972)	(2,062)	(3,454)
Gross Profit		10,031	17,665	16,624	28,306
EBITDA		(7,464)	(580)	(5,876)	1,306
Operating Profit (before amort. and except.)		(16,104)	(7,494)	(13,090)	(6,208)
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)	(16,290)	(9,407)
Net Interest		(268)	(315)	(315)	(315)
Profit Before Tax (norm)		(16,372)	(7,809)	(13,405)	(6,522)
Profit Before Tax (FRS 3)		(10,047)	(14,004)	(16,605)	(9,721)
Tax		772	489	604	354
Profit After Tax (norm)		(15,600)	(7,320)	(12,801)	(6,167)
Profit After Tax (FRS 3)		(9,275)	(13,515)	(16,001)	(9,367)
Average Number of Shares Outstanding (m)		33.3	37.8	41.7	42.6
EPS (c)		(46.9)	(19.4)	(30.7)	(14.5)
EPS - normalised fully diluted (c)		(46.9)	(18.6)	(30.2)	(14.1)
EPS - (IFRS) (c)		(27.9)	(35.8)	(38.3)	(22.0)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		88.1	90.0	89.0	89.1
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		6,469	8,526	8,356	8,359
Intangible Assets		5,977	7,081	6,826	6,744
Tangible Assets		492	556	641	726
Investments		0	889	889	889
Current Assets		13,703	33,365	22,081	25,097
Stocks		0	0	0	1
Debtors		6,145	5,969	9,068	9,196
Cash		7,558	27,396	13,013	15,899
Other		0	0	0	1
Current Liabilities		(9,409)	(14,052)	(11,753)	(15,953)
Creditors & Deferred Income		(9,320)	(13,068)	(11,753)	(15,953)
Short term borrowings		(89)	(984)	0	0
Long Term Liabilities		(6,980)	(10,372)	(1,400)	(1,800)
Long term borrowings		(294)	(3,310)	0	0
Deferred Income		(6,686)	(7,062)	(1,400)	(1,800)
Net Assets		3,783	17,467	17,284	15,703
CASH FLOW					
Operating Cash Flow		(2,944)	656	(3,334)	10,364
Net Interest		(161)	(257)	(315)	(315)
Tax		690	1,364	604	354
Capex (inc capitalised R&D)		(5,923)	(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		5,186	15,895	(10,089)	2,886
Opening net debt/(cash)		(2,555)	(7,175)	(23,102)	(13,013)
HP finance leases initiated		(383)	0	0	0
Other		(175)	32	0	0
Closing net debt/(cash)		(7,175)	(23,102)	(13,013)	(15,899)

Source: WANdisco accounts, Edison Investment Research

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