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New Zealand Talks Tech

September 2015

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Edison Talks Tech

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Edison research clients*

Edison Group, Cameron Partners and NZX welcome you to the second Edison Talks Tech Conference. Today we have brought together a selection of listed and unlisted companies from Australia and New Zealand. In the fast-moving technology world dramatic changes can take place in just a few months. For this reason and because many investors are interested in taking a second look, some companies are returning to provide an update on progress made in the six months since our inaugural Edison Talks Tech conference. These include Serko (SKO.NZX), GeoOp (GEO.NZX), Vista Group (VGI/VGL – dual-listed in Australia and New Zealand) and VMob (VML.NZX).

New Zealand-based companies presenting for the first time include dual-listed health information services company Orion Health (OHE.NZX) and cervical cancer screener, TruScreen (TRU.NZX). This conference also includes ASX-listed Freelancer (FLN.ASX), the world's largest online marketplace for service industry jobs, and Bailador Technology Investments (BTI.ASX), an investor in developed technology with a global focus.

Unlisted companies presenting for the first time include Hydroworks, Powerhouse Ventures and Straker Translations.

About Edison Investment Research

Edison Investment Research, the investment intelligence firm, is committed to providing New Zealand-listed and unlisted companies and investors with the highest-quality investment research. Our research brand strives to be objective, insightful, financially rigorous, readable and timely.

Our recent successes include:

- appointment by NZX as the exclusive research provider to the NXT market;
- named by London Stock Exchange as among 1,000 Companies to Inspire Britain, celebrating the UK's fastest-growing and most dynamic small and medium-sized businesses;
- Best Research Provider 2015 at the ADVFN International Financial Awards; and
- 2013 M&A International investment research advisory firm of the year.

Our New Zealand office is supported by an award-winning global team of over 120 research analysts and investment professionals from offices in London, New York, Frankfurt, and Sydney.

Strong growth is being experienced in New Zealand following the addition of several new NZX-listed retained research and Investor Access clients. This growth in the New Zealand market is a reflection of the strength of our global distribution network and our sector specialist analytical capacity in Asia Pacific, North America and the UK, supporting our retained research clients around the world and marketing them to a global investor base.

Our research can be accessed at www.edisongroup.com.

About Cameron Partners

Cameron Partners is a leading New Zealand investment banking firm providing M&A and corporate finance advisory services. Clients receive the attention of senior, experienced bankers operating from our Auckland and Wellington offices. Clients are located in New Zealand and offshore and span listed and unlisted corporates, private equity funds, entrepreneurs and public sector organisations. The common theme is that the clients seek market-leading transaction execution and advisory services in the New Zealand market. Cameron Partners is the New Zealand global alliance partner of Rothschild, one of the world's leading investment banking houses with offices in 33 countries.

About NZX (NZX)

NZX operates the NZ capital markets, agricultural commodities and NZ energy markets. It provides the trading mechanisms and infrastructure, develops products and provides the data and information that drives trading activity.

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New Zealand Talks Tech

7 September 2015

Conference programme:

Programme		Time
Conference registration		8.45am
Edison/NZX introduction		9.00am
Orion Health		9.15am
Freelancer		9.45am
SLI Systems		10.15am
Morning tea		10.45am
Vista Group International		11.00am
Serko		11.30am
TruScreen		12.00pm
Lunch		12.30pm
Cameron Partners		1:00pm
VMob Group		1.15pm
GeoOP		1.45pm
Balidor Technology Investments		2.15pm
Afternoon tea		2.45pm
Straker Translations	Unlisted	3:00pm
Powerhouse Ventures	Unlisted	3:30pm
Hydroworks	Unlisted	4.00pm
Drinks		4.30pm

Company profiles

Bailador Tech Investments

Building a disruptive portfolio

Bailador Technology Investments is a Sydney-based private equity firm created by former Fairfax Media (FXJ.ASX) CEO and All Black captain David Kirk and former CHAMP and Illyria executive Paul Wilson. The company raised A$25m in an IPO in late 2014 to continue its strategy to invest in technology companies that have passed through the start-up stage. The company's post-tax NAV at 31 July was A$1.013, a 27% premium to the current share price, which is also at a discount to the issue price of $1/share.

Tech-focused

Bailador is a private equity firm specialising in investments in expansion capital in companies that have advanced through the start-up phase. The firm prefers to invest in the internet and information technology sector with a focus on e-commerce and subscription-based internet businesses, software, high-value data, online education, telecommunications applications and services, and new media and marketing. It does not invest in start-ups or in the biotechnology sector. The firm typically invests between A$2m and A$5m. It prefers to take minority stakes with board seats in portfolio companies.

Current portfolio

Bailador brought three foundation private investments to its IPO – SiteMinder, Viocorp and Standard Media Index (SMI) – and has subsequently invested in a fourth tech company, iPro. SiteMinder is a leader in hotel channel management and distribution solutions for online accommodation bookings. It accounts for 37% of the portfolio and Bailador values its12.9% fully diluted share at A$25m.

Viocorp is a cloud-based platform provider for publishing and broadcasting video and audio content though the web, IPTV and mobile services. Bailador values its 52% stake at A$18.7m. It makes up 27.6% of the portfolio. SMI, an independent source of actual advertising expenditure data to rival Nielsen, accounts for 8.1% of the portfolio. Bailador values its 7.7% fully diluted stake at A$5.5m. In March, the company invested A$5.5m for a 45.3% stake in iPro, a cloud-based vendor/supplier/employee verification portal aimed at governments and corporates. It accounts for 8.5% of the portfolio. BTI had A$13.3m cash in hand at end-July.

The company has announced it will invest NZ$4m (A$3.6m) in New Zealand-based cloud-enabled translation service provider Straker Translations. BTI will hold a 15% stake via converting preference shares and take a board seat.

Forecasts

There are no consensus forecasts available on the company.

Historical financials

Year end	Portfolio value (A$m)	NTA pre-tax (A$)	NTA post-tax (A$)	DPS (c)	P/E (x)	Yield (%)
07/15	67.8	1.086	1.013	N/A	N/A	N/A

Source: Company reports

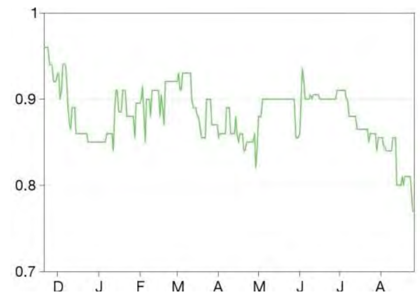
Listed investment trusts

Price*	**A$0.77**
Market cap	**A$48m**

*As at 27 August 2015

Net cash (A$m) at 31 July 2015	13.3

Share price graph



Share details

Code	BTI
Listing	ASX
Shares in issue	62.5m

Business description

Bailador is a private equity firm created to invest in internet and IT companies in their expansion capital stage. The company typically invests between A$2m and A$5m and takes a seat on the board. The company has had a realisation event since listing.

Bull

- Proven track record with compound annual growth of investor returns of 24.3% from 2010 to 2014.
- Experienced management team.
- Portfolio has a nice selection of sector disruptors.

Bear

- Limited portfolio.
- The foundation investments are private companies and not publicly traded.
- Option conversion deadline of 31 March 2016 will potentially weigh on the stock (exercise price A$1.00/option).

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Freelancer

Information technology

Pushing the boundaries

Freelancer (FLN) is the world's largest freelancing, outsourcing and crowdsourcing marketplace by number of users (16.2 million) and projects (8.2 million). It connects global small business, consumers, start-ups and entrepreneurs needing services with a global workforce of skilled online freelancers. The average job size is around US$160 and FLN provides a platform for small business to obtain cost-effective services while providing employment and global opportunity for a fast-growing, skilled workforce in the developing world. At 30 June 2015, more than 8.17 million projects and contests had been posted on Freelancer, with a combined value of US$2.56bn.

Business model

The revenue model is to charge users posting projects a commission of up to 3% and to charge users performing projects between 3% and 10% depending on the type of project and whether the user is on a free or paid membership plan. Membership plans range in price from A$4.95/month to A$199.95/month, and reduce the commission rate charged to users, whether they are employers or freelancers. Projects can be posted as jobs, without an estimated price, with a budget range or as competitions with a prize, referred to as crowdsourcing contests.

Strong H1 performance

In H115 the number of users on FLN's platform increased by 1.8m to 16.2m and the number of projects grew by 43% to 8.2 million. Consequently, FLN reported a 41% rise in first-half revenues to A$16.8m and positive cash flow of A$1.1m. The company also completed a A$10m share placement alongside a A$35m share sale by two of the company's founding directors to improve the company's free float and stock liquidity. CEO Matt Barrie retains a 42% stake in the company while director Simon Clausen holds 34%.

Valuation: Profits expected in FY16

FLN expects continued strong growth rates in FY15, driven by increased global internet penetration and a second-half contribution from Escrow.com. which it acquired in April for US$7.5m and funded through a A$10m share placement. Escrow.com, a leading provider of secure online payments, generated US$5m in revenue in CY14 and US$1.2m in EBITDA. Consensus forecasts suggest that CAGR in revenues for the next two years will be ~25% and that operations will be profitable in H215. FLN has no debt and A$31.3m of cash to fund growth.

Consensus estimates

Year end	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/13	18.8	0.6	0.2	0.0	N/A	N/A
12/14	26.1	(2.8)	(0.4)	0.0	N/A	N/A
12/15e	35.9	(1.2)	(0.7)	0.0	N/A	N/A
12/16e	48.4	0.2	0.2	0.0	N/A	N/A

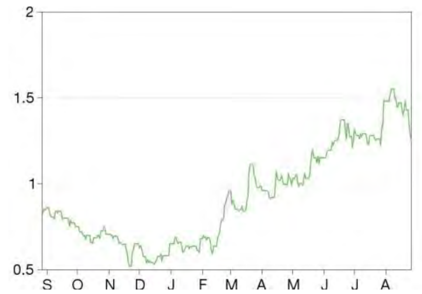
Source: Thomson Reuters, company reports

Price*	**A$1.25**
Market cap	**A$571m**

*As at 27 August 2015

Net cash (A$m) at 30 June 2015	31.3

Share price graph



Share details

Code	FLN
Listing	ASX
Shares in issue	456.6m

Business description

FLN's goal is to provide an online platform to allow people to connect, to perform any type of work from anywhere in the world, at any time in any language in any way, making it the most diverse online services marketplace in the world. It offers 40 regional websites, supports 32 languages and 19 currencies.

Bull

- Market leader.
- Scalable business model.
- Strong balance sheet.

Bear

- Challenges of attracting website traffic.
- Risks associated with user-generated content.
- Technology risks.

Analysts

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EDISON

GeoOp

Finance & other services

Gathering momentum

GeoOp (GEO.NZX) is a workforce productivity company that offers complete job management to businesses worldwide. For the quarter to June 2015, GEO reported 67% q-o-q growth in users to 19,000 licenced users operating in 35 countries. Its monthly annualised revenues reached NZ$1.4m at June 30 2015. GEO announced in late August that it had secured NZ$2.4m at NZ$0.48/share in additional funding via a share placement with strategic investors based offshore. The placement will be followed by a share purchase plan to its existing 1,500 shareholders at the same issue price.

The product and revenue model

GEO uses smart devices already in the hands of field workers and allows the office and field worker to collaborate and share real-time job information. This avoids double handing and error opportunities and allows customers to reduce administration costs and improve profitability. The GEO product replaces pen and paper or multiple IT packages. GEO uses a licence-based pricing model where businesses pay a single monthly licence fee based on the total number of licences required. In June 2015, the company released a new licence pricing plan aimed at smaller users and refined pricing points in its existing plans. This resulted in a 17% uplift in average revenue per user (ARPU) in July 2015. GEO now has 19,000 licenced users. Key to the product's success is its integration with accounting, GPS tracking and payment systems. GEO is already integrated into Xero and is close to integrating into QuickBooks and MYOB's AccountRight package to further open up the US and Australian market opportunity.

Capital raise

GEO announced a placement of NZ$2.4m at NZ$0.48/share to new large investors, predominantly based offshore. The placement will be followed by a share purchase plan to existing shareholders at the same price. The placement includes warrants, one for every three shares purchased and exercisable up until 31 October 2016 at NZ$0.48/share. This potentially gives GEO another NZ$0.8m at that time if fully exercised. The company will use the funds to accelerate growth in the US and Australia and execute its strategic plan focused on achieving profitability.

Valuation: Early-stage company

GEO's software as a service (SaaS) business model continues to evolve, with modifications to its licensing model in July 2014. The company appointed Australia-based Anna Cicognani as CEO in February 2015. There are no consensus forecasts and the early-stage nature of the business means we are unable to offer a view on valuation.

Historical financials

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
03/14	0.5	(4.6)	(17.9)	0.0	N/A	N/A
03/15*	1.3	(4.9)	(23.9)	0.0	N/A	N/A

Source: Company reports. *Note: Company is moving to 30 June year end in 2015.

Price*	NZ$0.48
Market cap	NZ$13m

*At which August 25 placement completed

Net cash (NZ$m) at 31 March 2015	2.5

Share price graph

Share details

Code	GEO
Listing	NZX
Shares in issue	27.6m

Business description

GeoOp aims to become a global leader in workforce productivity. It offers complete job management to businesses all over the world. Its product is low cost and easy to use and offers premium support. Licence user numbers have grown 322% in the 20 months since listing.

Bull

- Easy-to-use software.
- Recurring revenue model.
- Attractive pricing.

Bear

- Competition from other software products.
- Investment in R&D to drive product innovation is essential.
- A monthly subscription model, so no long-term contracts.

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HydroWorks

Industrial engineering

The power of water

HydroWorks (HW) is an unlisted company based in Christchurch, New Zealand that designs, installs, maintains and refurbishes small-scale (up to 30MW) hydro plants in Australasia. Since 2001 it has delivered more than 35 bespoke solutions. A key to its success is the particular application of advanced computational fluid dynamics (CFD) in the design process. A c NZ$3m capital raise at an implied equity value of NZ$16.2m is underway and an IPO is planned in 2016. The company forecasts FY16-20 CAGR in revenue of 57%, an FY20 EBITDA margin of 16.4% and total capex of NZ$13.7m.

Scaling up

For most of the last 14 years HydroWorks has operated as an engineering design house with outsourced manufacturing capabilities. Since December 2010 Powerhouse Ventures and the government-backed shareholders have been instrumental in changing the business strategy from design shop to engineering, procurement and construction (EPC) contractor. This change adds to the risk profile, but allows HydroWorks to improve returns by using its technical skills to generate more power for the same cost. It has invested ahead of time in a new management team with the skills to manage rapid growth. The May 2015 acquisition of manufacturer Mace Engineering is strategically important because it enables the company to address the entire small hydro segment from specification and design through to engineering and commissioning.

"Big" middle ground

HydroWorks occupies a unique space (the 'big middle ground'), in the hydro generation plant market. The company's estimate of the annual market for refurbishment of ageing infrastructure and clean energy solutions that combine power and irrigation is NZ$150m. The large multinationals are unable to earn the required ROIC on <30MW projects and the bottom end (tier 2) does not have design expertise or end-to-end contract management capability.

Valuation: Last capital raise price NZ$57.00/share

The current c NZ$3.0m capital raise is priced at NZ$57.00/share (equity value NZ$16.2m). This assumes FY20 revenue is NZ$42m, which is only 56% of the company's conservative base case FY20 revenue forecast of NZ$75m. The company's recent contract win with South East Queensland Water (c A$8m) provides some evidence of the transformation that is underway as the company moves from engineering consultant to EPC contractor.

Historical financials

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
03/14	1.6	(0.5)	(0.2)	0.0	N/A	N/A
03/15	2.4	(1.2)	(0.4)	0.0	N/A	N/A

Source: HydroWorks. Note: These results were before the acquisition of Mace Engineering, when HydroWorks began taking on the role of head contractor.

Price	**N/A**
Market cap	**N/A**
Net cash (NZ$m) at 31 March 2015	0.8

Share price graph

Not available as unlisted

Share details

Code	N/A
Listing	N/A
Shares in issue	0.278m

Business description

HydroWorks is an end-to-end supplier of products and services to the small-scale (up to 30MW capacity) hydro market in Australasia. It services the new-build and refurbishment markets with bespoke and off-the-shelf products.

Bull

- Use of advanced CFD in design.
- Know-how and track record of excellence.
- Customer reference sites.

Bear

- New to providing end-to-end services as an EPC contractor.
- Large-scale hydro providers entering the market.
- New technology may be developed to produce cheaper power from renewable sources.

Analysts

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Orion Health Group

Information technology

Smart about health

Orion Health Group (OHE) is a dual-listed technology leader offering an end to end population health management solution (software and consulting services) and targeting those who both fund and provide healthcare services: private and public hospitals, healthcare provider networks, insurers, health information exchanges, research bodies and pharmaceutical companies. The company listed in November 2014, raising NZ$125m to support additional research and development and assist in its transition to a subscription revenue model. About half OHE's revenues are generated in North America where the business has transitioned to delivery on a SaaS model, but its most rapidly growing market is the UK, where revenues grew 60% in FY15.

Business model

OHE provides an end-to-end solution for Population Health Management, being the technology required to deliver preventative and proactive healthcare. OHE's point of difference is that it can connect all healthcare providers, from in hospital, out across the community and to the individual. OHE's modern technology is leading the way in meeting a huge and growing global demand for a better way to reduce costs and improve healthcare outcomes. Its scalable health data platform combines all forms of health related data – clinical, insurance claims and consumer – and integrates with its solutions for care coordination and patient engagement.

Shift to subscription revenue model

Through FY15, OHE began its shift to a subscription revenue model with a global delivery platform and has completed this transition in its North American business. This enabled the company to lift its annualised recurring revenue base to NZ$63m in FY15, an increase of 42%. OHE announced in July that in Q116 this shift assisted in establishing a strategic alliance with eHealth Technologies to provide access for health providers in North Dakota to medical images as part of a Health Information Exchange. The company has also secured a contract to support a large care co-ordination project in Cambridgeshire in the UK, which focuses on the care of the elderly. In its Q116 results release, OHE noted that operating cash flow in the six months to June was NZ$1m.

Valuation: Revenue growth of ~25% in FY16 and FY17

Consensus forecasts for OHE are for revenues to grow at ~25% for the next two financial years and for earnings losses to slow to a NZ$0.145/share loss in FY17.

Consensus estimates

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
03/14	153.0	(1.9)	(0.9)	0.0	N/A	N/A
03/15	164.1	(50.7)	(42.3)	0.0	N/A	N/A
03/16e	207.8	(40.0)	(24.1)	0.0	N/A	N/A
03/17e	256.8	(23.5)	(14.5)	0.0	N/A	N/A

Source: Company reports, Thomson Reuters

Price*	**NZ$3.60/A$3.49**
Market cap	**NZ$578m**

*As at 27 August 2015

Net cash (NZ$m) at 30 June 2015	96.0

Share price graph

Share details

Code	OHE
Listing	NZX/ASX
Shares in issue	160.6m

Business description

Orion Health Group is a leading software as a service (SaaS) healthcare company targeting the fast-growing market segments of big data, disease management and care co-ordination. The company has been in operation since 1993 and employs more than 1,200 people in 27 locations around the world.

Bull

- Established strong position in the US, UK, Australia and New Zealand.
- Positioned to participate in the digitisation of healthcare.
- Strong and experienced management team and board.

Bear

- Highly competitive market.
- Exchange rate risk; bulk of earnings generated in the US.
- Sector subjected to government policy and change.

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EDISON

Powerhouse Ventures

Technology commercialisation opportunity

Powerhouse Ventures is an investment company specialising in a hard-to-access asset class – research-backed intellectual property. Powerhouse was formed in Christchurch to commercialise scientific and technical innovation developed at New Zealand universities and government-owned research institutes. Its current portfolio of 18 investments is comprised of five post-seed investments (~85% of the portfolio's enterprise value), five seed investments and eight pre-seed opportunities. The portfolio has an enterprise value of NZ$106m. Powerhouse's unaudited price of last round holding is carried at NZ12.3m. The first realisation event is planned for CY Q415. Powerhouse is currently unlisted but is targeting a dual-listing (NZX and ASX) IPO in early 2016.

Business model and performance

Powerhouse identifies investment opportunities through its on-campus presence at New Zealand universities. It also has relationships with New Zealand research institutes. An important part of Powerhouse's business model is to recruit and grow management teams to run its portfolio companies. Powerhouse invariably takes a board position and is instrumental in building portfolio companies' governance structures. Powerhouse is very hands-on, contributing much more than just capital, and focusing on shaping and driving strategic direction to successful commercialisation and value creation. Powerhouse leads investment rounds, bringing in co-investors to assist the achievement of strategic objectives, as well as sourcing capital from purely financially-driven investors. The ability of the Powerhouse team to create value is best quantified by the increase in the fair value of the investments in the portfolio companies. In aggregate, the annual growth rates have been greater than 30%.

Balance sheet

Powerhouse's unaudited 30 June 2015 balance sheet shows net asset value (NAV) of NZ$14m.

Valuation: Early-stage investment

A capital raising is currently being undertaken at NZ$870/share, equivalent to NAV at the initiation of the raising. A further capital raising of approximately NZ$15m is planned in CY Q415. An independent valuation is underway to determine the likely future premium to NAV. This valuation process will entail a comparison of the Powerhouse business strategy and current portfolio with similar listed entities.

Edison estimates

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/14	1.8	(0.2)	N/A	0.0	N/A	N/A
06/15e	5.7	(1.2)	N/A	0.0	N/A	N/A

Source: Powerhouse Ventures

Financials

Last capital raise price	NZ$870
NAV	NZ$14m

Share price graph

Not available as unlisted

Share details

Code	N/A
Listing	N/A
Shares in issue	18,853

Business description

Powerhouse Ventures has a vision to create global businesses from research-backed intellectual property. The growth strategy includes a planned expansion to Australia and a dual listing on NZX Main Board and ASX.

Bull

- Experienced management team and board.
- Portfolio with a range of maturities across four broad technology sectors.
- The 'investing a little' and learning a lot approach to investment.

Bear

- Capital raise of ~NZ$5.6m not yet complete.
- First realisation event planned for 2015, yet to take place.
- Some investments currently below 15%, giving Powerhouse limited influence in these companies.

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EDISON

Serko

Finance & other services

Flying high

Serko (SKO.NZ) is a leading cloud-based software business based in New Zealand. It has developed products designed to transform business travel by providing tools to initiate and change travel arrangements and to record and reconcile travel expenditure. The company announced in mid-August it had forged a new strategic partnership with Expedia (NASDAQ.EXPE) that will allow SKO customers to search and book Expedia- and Wotif-branded content through SKO Online, SKO's online booking tool (OBT). The deal opens up a new revenue stream for SKO and sets the company on its path towards increasing its average revenue per traveller.

Business opportunity

According to management, SKO's share of the US$25bn Australian corporate travel market is c 30%. SKO's system allows travellers to manage travel themselves and integrate expense claims with the company's enterprise reporting system (ERP). The SKO system, which now includes Serko Mobile, allows real-time application of the company's travel and booking policies, and is estimated to cut corporation travel budgets by c 20%. The company has cemented its growth profile with the acquisition in April 2015 of Arnold Travel Technology, which added 22% more online booking transactions and 500,000 profiles. SKO anticipates the transaction will deliver a positive EBITDA contribution in the second half of FY16. The company's strategic partnership with Expedia will allow SKO to market and promote Expedia's inventory of 8,200 properties across Australia and New Zealand.

Revenue model

SKO earns revenue by charging transaction fees on all corporate travel spend including flights, accommodation rental cars and ancillary services, such as taxis, booked across its platform.

Valuation: On target for profitability in FY17

The company has guided that its revenues for FY16 will be at the lower end of the NZ$16-18m range previously given, with revenues in the six months to September 2015 expected to be in the range of NZ$6.3-7m. SKO expects to achieve profitability in FY17.

Forecasts

There are no consensus forecasts available on the company.

Historical financials

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (NZ$)	DPS (NZ$)	P/E (x)	Yield (%)
03/13	4.8	(0.3)	(0.01)	0.0	N/A	N/A
03/14	6.7	(1.7)	(0.03)	0.0	N/A	N/A
03/15	10.4	(6.4)	(0.10)	0.0	N/A	N/A

Source: Company reports

Price*	NZ$0.80
Market cap	NZ$49m

*As at 27 August 2015

Net cash (NZ$m) at 31 March 2015	4.5

Share price graph

Share details

Code	SKO
Listing	NZX
Shares in issue	61.4m

Business description

SKO is Australasia's leading online travel and expense management company for business. Its head office is in Auckland. Other offices are in Sydney, Xi'an (China) and Gurgaon (India). SKO's booking tool is used by administrators and travellers to book flights, accommodation and car hire.

Bull

- Corporate travel is a significant controllable cost, estimated to be 8-12% of the average organisation's total cost base.
- SKO's systems are estimated to reduce corporate travel costs by c 20%.
- Founders have 25 years' experience in travel software origination.

Bear

- Competitive market subject to change.
- Market growth may be slower than expected.
- Reliance on TMCs.

Analysts

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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.

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EDISON

Straker Translations

Information technology

Translating its global presence

Straker Translations has developed a proprietary cloud-enabled transaction platform to service the US$37bn global translation market. Based in Auckland, Straker has ~50 employees spread across seven countries. The company has grown revenues at a CAGR of 65% over the four years to March 2015 and is generating a gross profit margin of 62%. Its vision is to become a top 20 global supplier of translation services with annual revenue growing to NZ$50m within five years. It has recently secured funding of NZ$4m out of a NZ$5m pre-IPO round from Bailador Technology Investments (BTI.ASX).

Disruptive cloud-based technology platform

Straker uses its cloud-enabled, proprietary platform to connect directly with its 5,000+ translators, enabling it to offer fast, streamlined translation services to its corporate clients by using its in-house developed context-specific engine. This compares with traditional language service providers, which often outsource translation services to smaller providers that in turn outsource to individual translators. Straker sees its direct relationship with both its translators and its customers as a key competitive advantage in a highly fragmented space.

Scalable opportunity

Straker's growth has been underpinned by repeat sales from corporate customers. Currently just under 60% of revenues are from repeat sales, with a growing number of jobs coming from multinationals. The company's forecasts are based on scaling up in existing and new markets, in particular North America and Asia. Straker's technology platform enables it to integrate directly into large e-commerce, travel and content platforms which should provide a "network effect" to sales growth. Several such deals are complete and now live with direct, automated application programming interface (API) connections.

Capital raise and road to listing

Straker has recently completed a NZ$5m pre-IPO funding round, principally to fund expansion of its existing online channels and develop new regions. The company also plans to use some of the funds to acquire low-technology competitors with key corporate accounts. BTI.AX has recently taken a NZ$4m investment in the company. Straker currently intends to conduct a further funding round to accelerate its growth plans and will consider a listing (potentially in CY2016) as part of this process.

Historical financials, company forecasts

Year end	Revenue (NZ$m)	Gross margin (NZ$m)	EBITDA (NZ$m)	EPS (c)	P/E (x)	Yield (%)
03/14	5.5	3.4	(1.3)	N/A	N/A	N/A
03/15	8.0	4.9	(0.5)	N/A	N/A	N/A
03/16e	11.5	7.2	N/A	N/A	N/A	N/A

Source: Straker Translations

Price N/A
Market cap N/A

Share price graph

Not available as unlisted

Share details

Code	N/A
Listing	N/A
Shares in issue	N/A

Business description

Straker Translations is a global provider of cloud-enabled translation services. Over the past five years, the company has developed a proprietary platform from actual customer usage and is now positioned to scale up its offering through both organic growth and acquisitions.

Bull

- Growth underpinned by repeat sales from corporate customers.
- Strong board and management team with experience in building and bringing new businesses to market.
- More than 50% of revenues already generated in North America.

Bear

- Dependant on Google AdWords for new customer acquisition.
- Highly fragmented competitive space with low barriers to entry.
- Additional equity raisings may be sought.

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TruScreen

Pharma & biotech

True potential

TruScreen (TRU) manufactures and distributes a unique testing device that detects cancerous and pre-cancerous cells in the cervix. The developing world, which has the highest incidence and mortality from cervical cancer, is the target market. TRU, which listed on the NZX in November 2014, has secured China Food and Drug Administration (CFDA) approval to market TruScreen in China, where there is no cervical cancer testing regime and a potential market of 388 million.

Business model

TRU manufactures, distributes and sells the TruScreen device for detecting cervical cancer. It manufactures in China and Australia. It is in the process of setting up sales and distribution networks in key target markets in the developing world. In April, it secured approval from the CFDA to market TruScreen in China. Since then, the company has commenced its first two major Chinese screening programmes, the first of which will run in co-operation with the China Doctors Association aimed at screening 100,000 women spread across every province of China, and the second run on behalf of China's largest oil company, Sinopec, with the aim of screening 130,000 women in the Shengli oil fields in north-east China.

In addition to China, TRU has cemented distribution agreements and commenced sales in South-East Asia, Central Asia, Latin America, the Middle East, Russia and Eastern Europe. It has also invested NZ$1m in developing a smaller, wireless, more modern and future-proofed TruScreen device. This miniaturised and mobilised TruScreen is expected to be released to the market in late 2015.

Capital-raising

Since its last balance date, the company has raised an additional NZ$5.1m through a NZ$3.27m private placement in May and a NZ$1.81m share purchase plan in June. These funds will enable the company to finance its current operations, set up manufacturing facilities for the upgraded miniaturised, wireless TruScreen device and continue its algorithm fefinement programme.

Valuation: No earnings forecasts available

There are no earnings forecasts available for TRU. The company reported revenues of NZ$2.2m in the 12 months to March 2015, which was ahead of the NZ$1.92m forecast in its prospectus.

Historical financials

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
03/14	0.0	(1.6)	(1.8)	0.0	N/A	N/A
03/15	2.2	(0.7)	(0.5)	0.0	N/A	N/A

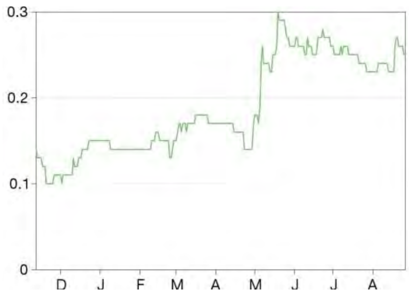
Source: Company reports

Price*	**NZ$0.25**
Market cap	**NZ$39m**

*As at 27 August 2015

Net cash (NZ$m) as at 27 July 2015	4.0

Share price graph



Share details

Code	TRU
Listing	NZX
Shares in issue	157.5m

Business description

TruScreen offers the latest technology in screening for the possibility of cervical cancer, which after breast cancer is the second most fatal cancer for women. The target market comprises one billion women in the developing world.

Bull

- Non-invasive test with a higher degree of accuracy than traditional Pap spear tests.
- Huge market potential in China.
- Real-time results.

Bear

- Targeting poorly funded developing countries.
- One-product company.
- Model relies on distribution partner in each jurisdiction.

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Vista Group International

Technology & system software

Clipping the ticket

Vista Group International is a global leader in film industry software solutions, with an estimated 40% share of the large cinema circuit market. Headquartered in Auckland, the company is dual-listed on the New Zealand and Australian stock exchanges, having listed in August 2014. The company reported a 57% lift in revenues to NZ$27.2m for the six months to June 2015 and a 100% increase in EBITDA to NZ$5m for the period. Vista Group has said that it is on track to meet its prospectus forecast for revenue of NZ$61.6m for the year ending December 2015.

Capital raise and acquisitions

Vista Group raised NZ$40 million in an initial public offering in August 2014. The IPO enabled the company to consolidate its ownership in MACCS and Virtual Concepts. Since the IPO, Vista has acquire the business of Ticketsoft in the US and the revenue of Cote Cine Group (a new distributor) in France.

Business Model

Vista Group provides cinema management, film distribution and customer analytics software to companies across the global film industry. Cinema management software provided by Vista Entertainment Solutions (VES) is the core business of the group. VES has more than 4,000 installed sites in over 60 countries and management estimates that over one billion cinema tickets are processed every year through Vista Cinema, one of VES's core products. Vista noted that VES had increased its sales network by more than 200 sites in the six months to June and that its sales pipeline put it on track to exceed revenue forecasts.

The company also offers back-end solutions for cinema operators through Book My Show and MACCS, and data analytics products, Movio and Numero, which deliver core data points for cinema exhibitors and distributors. Vista Group has over 300 employees across six offices in New Zealand (Auckland headquarters), Australia, the US, UK, Netherlands and China.

Consensus

The earnings table below shows the company's 2014 and its pre-IPO 2013 results. Having exceeded its 2014 prospectus revenue and net profit forecasts, the company announced in August that it was confident its second half sales pipeline would result in revenues in line with prospectus forecasts. The 2015 forecast is for revenue of NZ$61.6million. First half revenue increased almost 60% to NZ$27.2m and NPAT for the period rose 122% to NZ$2m. There are no consensus estimates for Vista Group.

Historical financials

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/13	30.5	7.8	9.6	0.0	56.7	N/A
12/14	47.2	6.3	5.9	0.0	92.2	N/A

Source: Vista Group International

Price*	**NZ$5.44/A$5.00**
Market cap	**NZ$435m**

*As at August 26 2015

Net cash (NZ$m) at June 30 2015	29.4

Share price graph

Share details

Code	VGI/VGL
Listing	ASX/NZX
Shares in issue	79.97m

Business description

Vista Group International provides cinema management, film distribution and customer analytics software to companies across the global film industry.

Bull

- Strong management team with global and extensive experience in cinema management and software.
- Footprint established in US and Europe.
- Beachhead established in China.

Bear

- Exchange rate risk; more than half of revenues generated in US$/€.
- Competitive market in US and Europe.
- Single industry focus; fortunes tied to cinema attendances.

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EDISON

VMob Group

Software & comp services

Personalised marketing

VMob (VML) is an early-stage New Zealand-based company commercialising a unique cloud-based mobile marketing solution for global retailers. The VMob's product uses big data to drive physical sales for bricks and mortar retailers by delivering marketing messages that are personalised to each customer. VML has a close partnership with Microsoft and its customers include McDonald's (global), 7-Eleven (Australia) and IKEA. Annualised committed monthly revenue has increased from NZ$0.2m in March 2014 to NZ$4.5m in July 2015.

Microsoft relationship

VML continues to strengthen its relationship with Microsoft. Proof of the importance of VML to Microsoft's 'mobile-first, cloud-first' strategy includes VML's major win of the highly sought after global award of 'Innovative Partner of the Year' at the Microsoft World Partner Conference, in July 2015, and the financial commitment from Microsoft to provide marketing support.

Contract wins

The VML platform is enterprise level software and best suited to large multi-site customers, but can mean a lengthy sales cycle. Product sales are usually made after a trial period. This was the case for McDonald's; after individual territory wins VML won the significant McDonald's global contact, which opens up all 119 country markets to VML. Another win with significant potential is IKEA, where VML is currently conducting product trials with IKEA across five countries in Europe, Asia and North America.

Valuation: ACMR build-up will drive valuation

The product is early-stage and there are few relevant profitable comparable companies. We have used a reverse DCF valuation to determine how many customers the market is paying for today. The current share price factors in 37 customers at an average annual revenue (ARR) of NZ$0.72m by 2017. Valuation uplift will be triggered by contract wins and increases in ACMR, which stand at NZ$4.5m following the McDonald's global contract win.

Historical financials

Year end	ACMR (NZ$m)	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/14	0.2	0.5	(1.6)	(5.0)	0.0	N/A	N/A
03/15	3.2	2.8	(4.0)	(8.5)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. ACMR = annualised committed monthly revenue.

Price*	**NZ$0.35**
Market cap	**NZ$23m**

*As at 28 August 2015

Share price graph

Share details

Code	VML
Listing	NZ Alternative Market
Shares in issue	66.5m

Business description

VMob Group is one of a new breed of mobile marketing enablers. Its software as a service (SaaS) product is designed to help global retailers drive more foot traffic through bricks and mortar stores. The top 250 global retailers still transact >90% of their business through bricks and mortar stores.

Bull

- Relationship/support from Microsoft.
- Longer contracts than most SaaS businesses (years not months).
- Contracts with major multinationals.

Bear

- Competition from low-cost partial solutions.
- March 2015 net cash of NZ$1.9m but dilutive equity raises are likely to fund losses until profitability reached in FY17.
- Long complex sales cycle and high customer acquisition costs.

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