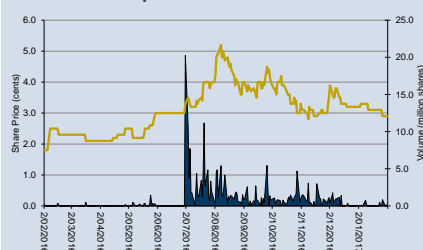


SPEC BUY

Current Price \$0.029
Valuation \$0.047

Ticker:	VLT.ASX		
Sector:	IT		
Shares on Issue (m):	640.2		
Market Cap (\$m):	18.6		
Net Debt / (Cash) (\$m):	-1.3		
Enterprise Value (\$m):	17.3		
52 wk High/Low:	0.05	0.02	
12m Av Daily Vol (m):		0.88	
Key Metrics			
	17F	18F	
EV/EBITDA (x)	-18.6	19.2	
EV/EBIT (x)	-13.9	29.1	
P/E (x)	-21.1	44.1	
Ratios			
	16A	17F	18F
ND / Equity	-78.6%	-59.4%	-71.1%
EBITDA Mgn	-15.6%	-25.7%	15.0%
RoA	-20.9%	-26.6%	16.0%
RoE	-62.3%	-25.3%	14.6%
Financials:			
Normalised:	16A	17F	18F
Revenue (\$m)	2.7	3.6	6.0
EBITDA (\$m)	-0.4	-0.9	0.9
EBIT (\$m)	-0.7	-1.2	0.6
NPAT (\$m)	-1.3	-0.9	0.4
Net Assets (\$m)	4.1	2.8	3.2
Op CF (\$m)	0.0	-1.4	0.7
Per Share Data:			
	16A	17F	18F
Norm. EPS (cps)	-0.52	-0.14	0.07
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	1.05	0.28	0.38
CFPS (cps)	-0.01	-0.22	0.10

Share Price Graph



Thursday, 2 February 2017

Vault Intelligence (VLT)

Investing for growth

Analyst | Ian Christie

Quick Read

We like the shift to a recurring revenue SaaS model. This is despite 2Q17 numbers which demonstrate the mismatch between client acquisition costs (which are immediate) and revenue (which takes time to ramp up). We remain positive on longer term growth potential, although have downgraded forecasts on the evidence of higher costs. Spec Buy maintained on a revised blended valuation of \$0.047 (prior \$0.055).

Event & Impact | Negative

December quarter: Operational highlights included:

- *Continued user growth* – VLT now has >900,000 people using its platform, with app users growing 80% over the quarter to >9,000
- *The soft launch of a partner programme* – 15 OH&S consultant partners signed up
- *A marketing rebrand* – the new website is driving increased traffic and lead generation
- *Ongoing pipeline opportunity development* – a sales team has now been established in Australia, and VLT secured a partnership with a Chinese-based risk specialist

Shifting the sales model: Shifting toward a recurring revenue base is taking longer than we envisaged, and 2Q17 cash receipts of \$0.69m were only marginally higher than 1Q17. Although it takes time to build up sales under a SaaS model, we believe it is worth it for longer term earnings sustainability. Nevertheless, we have pulled back our FY17 revenue forecast from \$4.0m to \$3.6m. Longer term revenue forecasts are little changed.

Investing in growth: While conversion of leads takes time, building the product suite and sales pipeline necessitates up front spend on R&D, marketing and sales support. Over the last 6 months this has been higher than we previously assumed, and extrapolating 1H17 cash costs (taking into account one-offs) sees our full year expense forecast climb ~20%. As a result we assume a small EBITDA loss in 2H17 and a full year underlying EBITDA loss of ~\$0.9m. Thereafter EBITDA climbs sharply as a result of the operating leverage on anticipated strong revenue growth (see detail overleaf).

Cash flow to stabilise: An operating cash outflow of \$0.5m for the December quarter left VLT with \$1.5m cash at the end of the period. On our forecasts we do not anticipate further operating cash outflows from 2H17, and note that VLT reported that January showed a marked improvement in sales conversion and cash generation.

Recommendation

Our valuation methodology is unchanged, and on lower forecasts a blend of DCF, revenue and EBITDA multiple calculations sees our valuation fall to \$0.047 (prior \$0.055). This is still well ahead of the current share price. Together with our positive view on the Company's growth potential, it underpins our maintained Spec Buy call.

Vault

Equity Research

Ian Christie, CFA

Shaded areas indicate unavailable or innaplicable historic data

Recommendation	SPEC BUY
Current Price (\$)	0.029
Valuation (\$)	0.047

Sector	Information Technology
Market Cap (\$m)	18.6
Date	1 February 2017

Trading Metrics	FY16A	FY17F	FY18F	FY19F
EV / EBITDA (x)	(40.3)	(18.6)	19.2	6.2
EV / EBIT (x)	(23.3)	(13.9)	29.1	7.0
P/E (x)	(5.6)	(21.1)	44.1	11.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY16A	FY17F	FY18F	FY19F
Reported EPS (cps)	-0.96	-0.20	0.07	0.26
Adjusted EPS (cps)	-0.52	-0.14	0.07	0.26
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	1.05	0.28	0.38	0.78
CF per share (cps)	-0.01	-0.22	0.10	0.28

Profit and Loss (\$m)*	FY16A	FY17F	FY18F	FY19F
Revenue	2.74	3.60	6.00	9.00
EBITDA	(0.43)	(0.93)	0.90	2.79
D&A	(0.31)	(0.31)	(0.31)	(0.32)
EBIT	(0.74)	(1.24)	0.59	2.47
PBT	(0.83)	(1.23)	0.63	2.51
NPAT	(1.33)	(0.86)	0.44	1.76
Reported PBT	(2.47)	(1.83)	0.63	2.51
Reported NPAT	(2.47)	(1.28)	0.44	1.76

* Normalised for one-off income and expenses unless stated otherwise

Cash Flow (\$m)	FY16A	FY17F	FY18F	FY19F
Receipts	3.0	3.5	5.9	8.8
Payments	(2.9)	(5.3)	(5.1)	(6.2)
Other	(0.1)	0.4	(0.2)	(0.7)
Cash from Operations	(0.0)	(1.4)	0.7	1.9
Property, Plant & Equip	(0.1)	(0.1)	(0.0)	(0.0)
Payment for Subsidiary	-	-	-	-
Other	(0.4)	-	-	-
Cash From Investing	(0.5)	(0.1)	(0.0)	(0.0)
Issue of Shares	4.2	-	-	0.6
Net Borrowing	0.3	(0.7)	-	-
Dividends / Other	0.1	-	-	-
Cash From Financing	4.7	(0.7)	-	0.6
Net Cash Flow	4.1	(2.3)	0.6	2.5
Ending Cash	3.9	1.6	2.3	4.8

Balance Sheet (\$m)	FY16A	FY17F	FY18F	FY19F
Cash	3.9	1.6	2.3	4.8
Receivables	0.4	0.6	0.7	0.9
Other	0.0	-	-	-
Current Assets	4.4	2.2	2.9	5.6
Property, Plant & Equip	0.1	0.2	0.2	0.2
Intangibles	1.3	1.1	0.8	0.5
Other NC Assets	-	-	-	-
Non-Current Assets	1.4	1.2	1.0	0.7
Total Assets	5.8	3.5	3.9	6.3
Payables	0.7	0.6	0.6	0.6
Borrowings	0.7	-	-	-
Provisions	0.1	0.1	0.1	0.1
Other	0.2	0.0	0.0	0.0
Total Liabilities	1.8	0.7	0.7	0.7
Net Assets	4.1	2.8	3.2	5.6
Ordinary Equity	12.2	12.2	12.2	12.8
Reserves	0.1	0.1	0.1	0.1
Retained Earnings	(8.2)	(9.5)	(9.0)	(7.3)
Total Equity	4.1	2.8	3.2	5.6

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	15.0%		
PV Free Cash Flow (\$m)		39.6	
Less Net Debt / Plus Cash & Unpaid Capital (\$m)		1.3	
Equity Value		41.4	0.062

Multiple Valuation:			
FY18 Revenue multiple	4.0	25.3	0.040
FY18 EBITDA multiple	15.0	14.8	0.023
Equity Value		20.1	0.031
Valuation (\$/share) - blend			0.047

Profit and Loss (\$m)*	1H16A	2H16A	1H17F	2H17F
Revenue	1.26	1.49	1.50	2.10
EBITDA	(0.33)	(0.10)	(0.80)	(0.13)
D&A	(0.14)	(0.17)	(0.15)	(0.17)
EBIT	(0.48)	(0.26)	(0.95)	(0.29)
PBT	(0.52)	(0.31)	(0.96)	(0.28)
NPAT	(0.41)	(0.91)	(0.67)	(0.19)
Reported PBT	(0.00)	(2.47)	(1.56)	(0.28)
Reported NPAT	(0.05)	(2.42)	(1.09)	(0.19)

* Normalised for one-off income and expenses unless stated otherwise

Cash Flow (\$m)	1H16A	2H16A	1H17F	2H17F
Receipts	-	-	1.3	2.1
Payments	-	-	(2.9)	(2.4)
Other	-	-	(0.0)	0.4
Cash from Operations	-	-	(1.6)	0.2
Property, Plant & Equip	-	-	(0.1)	(0.0)
Payment for Subsidiary	-	-	-	-
Other	-	-	-	-
Cash From Investing	-	-	(0.1)	(0.0)
Issue of Shares	-	-	(0.2)	0.2
Net Borrowing	-	-	(0.5)	(0.2)
Dividends / Other	-	-	-	-
Cash From Financing	-	-	(0.7)	(0.0)
Net Cash Flow	-	-	(2.4)	0.1
Ending Cash	-	3.9	1.5	1.6

Financial Ratios	FY16A	FY17F	FY18F	FY19F
Growth				
Revenue growth (%)	19.1%	31.3%	66.7%	50.0%
EBITDA growth (%)	n/a	n/a	n/a	210.0%
Norm. EPS growth (%)		-73.4%	-147.9%	294.6%
Profitability Ratios				
EBITDA Margin (%)	-15.6%	-25.7%	15.0%	31.0%
EBIT Margin (%)	-27.0%	-34.4%	9.9%	27.4%
PBT Margin (%)	-30.4%	-34.2%	10.4%	27.9%
NPAT Margin (%)	-48.4%	-24.0%	7.3%	19.6%
Return on Assets (%)	-20.9%	-26.6%	16.0%	48.1%
Return on Equity (%)	-62.3%	-25.3%	14.6%	40.0%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-78.6%	-59.4%	-71.1%	-85.4%
ND / ND + Equity (%)	-367.4%	-146.6%	-245.4%	-586.7%
Current Ratio (x)	254.6%	3.1	4.1	7.5
Net Interest Cover (x)	-25.0	285.9	-18.0	-54.1
Cash Flow Ratios				
Free Cash Flow Yield (%)	-1.5%	-8.5%	3.3%	9.5%
Cash Conversion (x)	0.1	1.5	0.8	0.7

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Important Disclosures

Argonaut acted as the Lead Manager to the Public Offer to raise \$4.3M in May 2016 and received fees commensurate with this service. Argonaut currently owns and/or controls 2.55M VLT shares and 23.92M VLT options exercisable at \$0.025 on or before 1 July 2019.

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