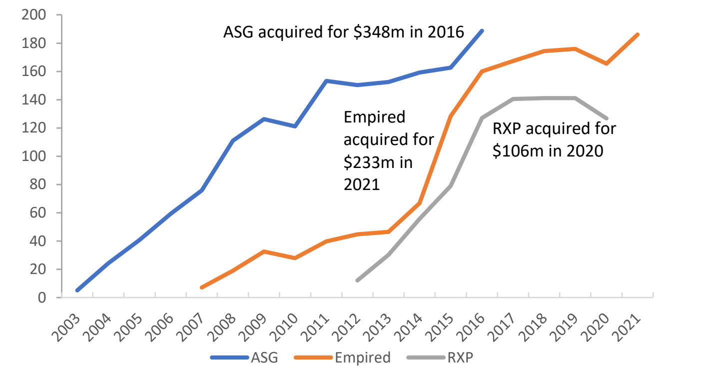
Cirrus Networks Holdings Limited

Reaching critical mass

Cirrus' new management team has instigated a 25% reduction in operating costs and renewed focus on high-value Services as a result of the bid by Webcentral to acquire it in 2021. This should drive a recovery in profits from 2H22. Continued M&A interest should also limit share price downside, in our view. We launch coverage with a DCF derived fair value of 7.0c per share (>100% upside).

- **The ingredients for success:** The acquisitions by Cirrus of Perth based L7 Solutions (2016), Melbourne based Ngage Technology and Canberra based Correct Communications (2017) created a national player with the winning attributes of M&A peer comparisons, Empired and ASG, which delivered greater than ninefold increases in enterprise value. Around 60% of Cirrus group revenues are derived from Government contracts which provide a competitive moat.
- **Webcentral bid the catalyst:** The failure of the prior board to manage shareholder expectations motivated a takeover attempt by Webcentral in July 2021. This triggered a management overhaul and a $4m annualised cost reduction in October 2021.
- **Reaching critical mass:** Cirrus is winning bigger Services contracts than ever before which we believe is a function of it surpassing $30m of Services revenue - the level at which similar Australian IT Services companies saw an inflection in sales and valuation (Figure 1). Contracts to provide managed services to Icon Water and Geosciences Australia should contribute estimated incremental EBITDA of $2-3m per annum from FY22.
- **Fair value of 7c per share:** Our DCF derived fair value of 7c per share puts the stock on an EV/EBITDA multiple of 10x in FY24 versus 4x currently, which is in line with the takeout multiples of Empired (9.6x) and ASG (10.6x). We estimate that the Geosciences Australia and Icon Water contracts alone are worth $20m -$30m showing the optionality on more contract wins.

Figure 1. Revenue evolution of leading IT Solutions providers ($m)



Source: FactSet, companies, Veritas estimates.

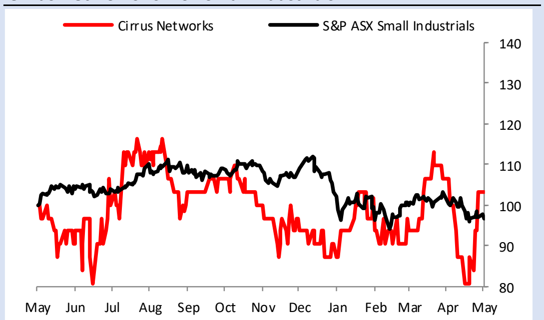
CNW.ASX — BUY

Thursday 26 May 2022

Share Price	$0.032
Price Target	$0.070
Valuation Method	DCF
Market capitalisation	$30m
Enterprise value	$25m
GICS sector	Information Technology
12 month price range	$0.025 - $0.036
Average monthly t/o	10.5m
Shares in issue	930.0m
Top 20 holders	539.0m
Previous rating	Initiation

Year ended July 31		FY21	FY22E	FY23E	FY24E
Revenue	$m	106.3	100.6	103.6	108.0
Growth	%	11.7	(5.4)	2.9	4.3
EBITDA	$m	2.0	1.9	5.0	6.2
Margin	%	1.9	1.9	4.8	5.8
NPAT	$m	0.4	(0.7)	3.4	4.4
EPS	¢ps	(0.0)	0.0	0.3	0.4
CFPS	¢ps	0.3	0.3	0.5	0.6
DPS	¢ps	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0
Dividend Yield	%	0.0	0.0	0.0	0.0
PER	x	N/A	108.1	9.2	7.2
EV/Revenue	x	0.2	0.3	0.2	0.2
EV/Gross profit	x	1.7	1.8	1.6	1.4
EV/EBITDA	x	12.3	13.4	5.0	4.0
EV/EBIT	x	42.6	69.9	7.2	5.7
Fixed charge cover	x	0.9	5.1	49.0	62.5
Return on capital	%	10.9	4.4	41.2	51.8

Cirrus Networks vs. ASX Small Industrials



Source: Factset, Veritas

Cirrus Networks is an Australian IT solutions provider focused on designing, building and managing IT infrastructure for enterprise and Government clients with offices in Perth, Canberra and Melbourne.

https://cirrusnetworks.com.au

James Tracey CFA +61 (0) 2 8252 3275
jtracey@veritassecurities.com.au

Max Moore +61 (0) 2 8252 3220
mmoore@veritassecurities.com.au

Cirrus Networks Holdings Limited

Share Price: $0.032 ps **Valuation: $0.070 ps**

Financial Performance ($m)

Year ended July 31	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Revenue	**88.0**	**95.2**	**106.3**	**100.6**	**103.6**	**108.0**
Cost of sales	(72.2)	(78.2)	(91.5)	(91.5)	(91.5)	(91.5)
Gross profit	**15.9**	**16.9**	**14.8**	**14.2**	**16.0**	**17.6**
Operating costs	(13.7)	(13.3)	(12.8)	(12.4)	(11.0)	(11.3)
Normalised EBITDA	**2.2**	**3.7**	**2.0**	**1.9**	**5.0**	**6.2**
Depreciation and amortisation	(0.7)	(1.5)	(1.4)	(1.5)	(1.5)	(1.8)
Normalised EBIT	**1.5**	**2.2**	**0.6**	**0.4**	**3.5**	**4.5**
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.2)	(0.6)	(0.6)	(0.1)	(0.1)	(0.1)
Normalised Pre-tax Profit	**1.3**	**1.6**	**(0.0)**	**0.3**	**3.4**	**4.4**
Normalised tax	0.0	0.0	0.0	0.0	0.0	0.0
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	**1.3**	**1.6**	**(0.0)**	**0.3**	**3.4**	**4.4**
One off items (post-tax)	(0.6)	1.3	0.5	(1.0)	0.0	0.0
Reported profit to holders	**0.8**	**2.9**	**0.4**	**(0.7)**	**3.4**	**4.4**

Cash Flow Statement ($m)

Year ended July 31	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Normalised EBITDA	**2.2**	**3.7**	**2.0**	**1.9**	**5.0**	**6.2**
Cash net interest	(0.2)	(0.6)	(0.6)	(0.1)	(0.1)	(0.1)
Cash tax (paid)/received	0.0	0.0	0.0	0.0	0.0	0.0
Working capital/other	0.2	(0.1)	1.4	1.1	(0.4)	0.2
Operating Cash Flow	**2.2**	**2.9**	**2.8**	**2.9**	**4.5**	**6.3**
Capex	(0.4)	(0.3)	(0.4)	(0.6)	(0.7)	(1.0)
Free Cash Flow	**1.8**	**2.7**	**2.4**	**2.3**	**3.8**	**5.3**
Net acquisitions	(2.6)	0.0	(0.3)	(0.0)	0.0	0.0
Net Borrowings	0.6	(0.8)	(0.6)	0.0	0.0	0.0
Payments on Finance Leases	0.0	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)
Equity raised/buybacks	0.0	0.0	0.8	0.0	0.0	0.0
Other	0.0	(0.0)	0.0	(0.0)	0.0	0.0
Net increase/(decrease) cash	**(0.2)**	**1.2**	**1.6**	**1.4**	**3.0**	**4.5**
Cash at beginning	5.3	5.0	6.2	7.7	9.2	12.2
Cash at end	5.0	6.2	7.7	9.2	12.2	16.7

Balance Sheet ($m)

Year ended July 31	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Cash	5.0	6.2	7.7	9.2	12.2	16.7
Receivables	22.4	18.1	24.2	15.2	13.9	14.5
Inventories	0.3	0.2	0.1	0.2	0.1	0.1
Other current assets	0.1	0.0	(0.0)	(0.0)	(0.0)	0.0
Current Assets	**27.8**	**24.4**	**32.0**	**24.5**	**26.2**	**31.3**
Property, Plant & Equipment	0.6	0.5	0.6	0.7	0.7	0.7
Intangibles	8.7	8.3	8.1	8.0	8.0	8.0
Deferred tax	2.7	4.5	4.0	4.0	4.0	4.0
Other non current assets	0.0	2.8	2.2	1.9	1.9	1.9
Non Current Assets	**12.0**	**16.1**	**15.1**	**14.6**	**14.6**	**14.6**
Total Assets	**39.8**	**40.5**	**47.1**	**39.1**	**40.8**	**46.0**
Payables	26.1	21.5	27.3	20.4	18.7	19.5
Borrowings	0.8	0.6	0.0	0.0	0.0	0.0
Lease Liabilities	0.0	2.0	2.4	2.0	2.0	2.0
Provisions	1.0	1.0	1.1	1.2	1.2	1.2
Other liabilities	0.6	0.9	0.0	0.0	0.0	0.0
Total Liabilities	**28.5**	**25.9**	**30.9**	**23.7**	**22.0**	**22.7**
Net Assets	**11.3**	**14.6**	**16.2**	**15.4**	**18.9**	**23.2**

Directors and Key Management Personnel		**Shares**	**Holding**
Paul Everingham	Non-Executive Chairman	21.9m	2.4%
Christopher McLaughlin	Managing Director	1.4m	0.2%
Daniel Rohr	Non-Executive Director	7.7m	0.8%
Adam Waterworth	Non-Executive Director	49.8m	5.4%
Matthew Green	CFO	36.6m	3.9%

Major Shareholders (excluding nominees)		**Shares**	**Holding**
WebCentral Group Limited		172.0m	18.5%
Microequities Asset Management		54.9m	5.9%
Adam Waterworth	Non-Executive Director	49.8m	5.4%
Andrew Milner	Former Chairman	37.6m	4.0%
Matthew Green	CFO	36.6m	3.9%
Top 20 shareholders		**539.0m**	**58.0%**

Source: Company data, Veritas Research

Valuation Metrics		**Valution**
Price Target (ps)	$0.070	117%
Share Price (ps)	$0.032	
FY23E EV/EBITDA (x)	5.0	
Implied FY23 EV/EBITDA (x)	12.0	139%
Implied FY24 EV/EBITDA (x)	9.7	92%
Market Capitalisation (A$m)	30	
Enterprise Value (A$m)	25	
Shares on Issue (m)	930	

Valuation Multiples

Year ended July	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
P/E (x)	22.9	21.0	N/A	108.1	9.2	7.2
Price/Cash Flow (x)	14.3	11.4	11.4	10.8	7.0	4.9
EV/Revenue (x)	0.3	0.3	0.2	0.3	0.2	0.2
EV/Gross profit (x)	1.6	1.5	1.7	1.8	1.6	1.4
EV/EBITDA (x)	11.5	6.9	12.3	13.4	5.0	4.0
EV/EBIT (x)	16.6	11.6	42.6	69.9	7.2	5.7
Equity FCF yield (%)	5.9	9.0	8.0	7.7	12.8	18.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	1.7	1.4	1.2	1.1	0.9	0.7
Price to book value (x)	2.7	2.3	1.9	2.0	1.7	1.3

Per Share Data

Year ended July 31	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
EPS diluted - adjusted (¢ps)	**0.14**	**0.15**	**(0.00)**	**0.03**	**0.35**	**0.45**
EPS diluted (¢ps)	0.08	0.27	0.04	(0.08)	0.35	0.45
Cash flow per share (¢ps)	0.22	0.28	0.28	0.30	0.46	0.65
Free cash flow per share (¢ps)	0.18	0.25	0.24	0.23	0.39	0.55
Cash (¢ps)	0.52	0.59	0.78	0.94	1.25	1.71
Net assets (¢ps)	1.17	1.39	1.64	1.58	1.93	2.38
DPS (¢ps)	0.00	0.00	0.00	0.00	0.00	0.00
Franking (%)	N/A	N/A	N/A	N/A	N/A	N/A
Shares on issue - avg. basic (m)	878	883	896	929	930	930
Shares on issue - avg. diluted (m)	963	1,046	987	978	979	979

Segmental ($m)

Year ended July 31	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Product revenue	62.8	66.2	80.0	70.5	70.5	70.5
Professional services revenue	*15.4*	*17.3*	*15.5*	*15.3*	*15.3*	*15.3*
Managed services revenue	*9.8*	*11.8*	*10.9*	*14.8*	*17.8*	*22.2*
Services revenue	25.2	29.0	26.4	30.1	33.1	37.5
Revenue	**88.0**	**95.2**	**106.3**	**100.6**	**103.6**	**108.0**
Product gross profit	8.5	8.5	7.7	5.8	6.3	6.3
Professional services gross profit	*3.6*	*3.9*	*3.2*	*3.3*	*3.4*	*3.4*
Managed services gross profit	*3.7*	*4.6*	*3.9*	*5.2*	*6.2*	*7.8*
Services gross profit	7.3	8.4	7.1	8.4	9.7	11.2
Gross profit	**15.9**	**16.9**	**14.8**	**14.2**	**16.0**	**17.6**
Product margin	13.6	12.8	9.7	8.2	9.0	9.0
Professional services margin	*23.5*	*22.5*	*20.6*	*21.2*	*22.5*	*22.5*
Managed services margin	*37.9*	*38.7*	*35.5*	*35.0*	*35.0*	*35.0*
Services gross profit	29.1	29.1	26.8	28.0	29.2	29.9
Gross profit margin (%)	**18.0**	**17.8**	**13.9**	**14.2**	**15.5**	**16.3**

Performance Ratios (%)

Year ended July 31	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Other costs (% of sales)	15.5	13.9	12.0	12.3	10.6	10.5
EBITDA (% of sales)	2.5	3.9	1.9	1.9	4.8	5.8
Gross profit growth	36	7	-13	-4	12	10
EBITDA growth	114	68	-44	-8	166	24
Normalised EPS growth	129	9	-103	N/A	1079	28
Tax rate	0.0	0.0	0.0	0.0	0.0	0.0
Return on capital	22.9	23.3	10.9	4.4	41.2	51.8

Balance Sheet Ratios

Balance Sheet ($m)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Gross debt ($ m)	1.4	2.6	2.4	2.0	2.0	2.0
Net debt/(cash) ($ m)	(3.6)	(3.6)	(5.4)	(7.2)	(10.2)	(14.7)
Fixed charge cover (x)	8.7	3.7	0.9	5.1	49.0	62.5

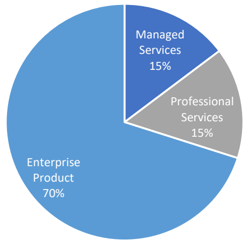
Contents

A leading Australian IT services provider

Services is forecast to be 30% of group revenue and c60% of gross profit in FY22.

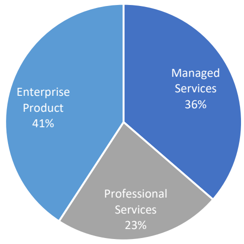
Cirrus Networks Holdings Limited (Cirrus) provides IT services from offices in Canberra, Perth and Melbourne. Segments include Professional Services, Managed Services and Enterprise Products. We forecast the higher margin Professional and Managed Services segments will represent 30% of group revenue (Figure 2) and nearly 60% of group gross profit in FY22E (Figure 3).

Figure 2: Cirrus revenue by type in FY22E (%)



Source: Company data, Veritas estimates

Figure 3: Cirrus gross profit type in FY22E



Source: Company data, Veritas estimates

The Australian Government represents c60% of group revenue.

Cirrus clients include Australian Government departments, Rio Tinto, Fortescue Metals Group, Bankwest, Woodside, KPMG, Crown and Commonwealth Bank (Figure 4). Australian Government departments comprise approximately sixty percent of group revenue. Energy and resource companies comprise 16% of revenue with all other sectors at less than 6%.

Figure 4: Cirrus clients by state

Source: Company data, Veritas

Professional Services

Professional Services division helps clients on a project basis via staff augmentation, short term time and materials work and longer-term projects. Profit from this segment is often recurring in nature due to clients being in a constant state of transformation and low levels of churn. Average gross margins were 20-24% over FY19 to FY21.

Managed Services

Managed Services is Cirrus' highest margin division and where we expect to see the most growth.

The Managed Services division provides outsourced IT infrastructure and support on an ongoing basis. Services are typically provided on three-year contracts with options to extend. Significant contracts include Icon Water, Geosciences Australia and Peter MacCallum Cancer Centre. This business is highly valuable due to the embeddedness of Cirrus within its clients and high switching costs. It is the highest margin segment with average gross margins 35-38% over FY19 to FY21.

Enterprise Product Sales

Products sales includes the sale of hardware and software, often as part of a Professional or Managed Service. Cirrus is a certified reseller of technology from Cisco Systems, Palo Alto Networks and EMC. Hardware comprises approximately three quarters of Product sales. Gross margins in the segment are relatively low. Management have given guidance for future gross profit margins of 8-10%, slightly lower than historically due to a shift toward larger deals.

History

Cirrus Networks was founded in 2012 by Frank Richmond and Grahame Gilson as IT product distributor to large enterprises in Western Australia. Before Cirrus, Frank and Grahame were key members of Dell Australia's sales team for large enterprise clients.

Andrew Milner, Matthew Sullivan and Frank Richmond were instrumental in establishing Cirrus.

Andrew Milner and Matthew Sullivan joined the Cirrus Networks board in November 2014 to bring services expertise. Andrew and Matt co-founded L7 Solutions in 2003 – one of the fastest growing IT services companies in WA at the time. L7 grew to $55m of revenues by 2011 and was sold to Amcom Telecommunications for $15m.

Andrew Milner was a long-time director of iiNet which was a nine bagger over its listed life.

Prior to L7, Andrew Milner founded Wantree Internet (an early Perth based ISP) acquired by iiNet (IIN.ASX) in 1999. Andrew became an Executive Director at iiNet from its listing in 1999 until 2003, then non-executive director until October 2008. iiNet's market capitalisation rose from $38m at an IPO issue price of $1.0 per share in 1999 to $1.4bn when it was acquired by TPG Telecom for $8.80 per share in 2015. Matt Sullivan was Integration Manager at iiNet from 2001-2003.

Listed in 2015

Cirrus listed on the ASX via a reverse takeover (RTO) of Liberty Resources in July 2015 with Frank Richmond as Managing Director, Andrew Milner as Non-executive Chairman and Matt Sullivan as non-executive Director.

Post RTO the Cirrus vendors, advisors and participants in the equity raise owned 77% of the 626m shares on issue and Liberty was renamed Cirrus Networks Holdings (Figure 5). The biggest shareholders following the listing included Frank Richmond (22.6% of shares on issue), Grahame Gilson (4.9%), Andrew Milner (4.4%) and Matthew Sullivan (4.4%).

Figure 5: Cirrus shares on issue over time

Date	Event	Net issuance	Shares on issue
Jul 2015	Liberty Resources Limited shares on issue (post consolidation)		143.7
Jul 2015	Shares issued to Cirrus Vendors for 100% of issued capital	300.9	444.7
	Shares issued to advisors	15.1	459.8
	Capital raise @ $0.03 per share	166.7	626.4
Sep 2016	Contingent consideration to Cirrus Vendors for achieving first milestone (Rev >$12m at 10% GP)	50.0	676.4
Mar 2017	Vendor shares for Ngage Technology Group acquisition	44.3	720.8
	Capital raise @ $0.02 per share	75.0	795.8
Nov 2017	Capital raise @ $0.018 per share to fund cash component of Tranche 1 Correct Communications	43.8	839.5
May 2018	Vendor (Andrew Weir) shares for Tranche 1 Correct Communications acquisition (at 2.3c)	22.0	861.5
Oct 2018	Vendor shares for Tranche 2 of Correct Communications acquisition (at 1.94c)	21.9	883.4
Oct 2020 - May 2022	Exercise of options (mostly at $0.017 exercise price)	46.6	930.0

Source: Company data, Veritas

Acquisitions in 2016 and 2017 build capability

The acquisition of L7 Solutions, founded by Andrew Milner and Matt Sullivan, was the catalyst for Frank Richmond's departure.

In early 2015, management decided to shift focus toward services in order to improve margins and make profits more predictable. Cirrus established the Managed Services business organically in July 2015 with a $1.5m contract. The acquisition of L7 Solutions, announced in December 2015, gave the group substantially greater scale and expertise in Services.

L7 Solutions was acquired for $0.5m from Vocus in March 2016 (Figure 6). Vocus considered L7 to be a non-core asset and the company lost a number of major clients since it was sold by Andrew Milner and Matthew Sullivan to Amcom (later renamed Vocus) in 2011. In FY15, L7 revenue was $28m and it was running at EBITDA breakeven. When the business was sold in FY11 it had $55m of revenue and Amcom expected $4m of earnings in the first full year of ownership (link). The acquisition of L7 Solutions more than doubled Cirrus proforma revenue.

The acquisitions of VTS Canberra, Ngage Technology Group and Correct Communications for $7.6m over 2016 and 2017 (Figure 6) gave the company a national and Australian Government presence for the first time. We estimate these three companies contributed $49m of proforma annual revenue in their first year of consolidation.

Figure 6: Major Cirrus acquisitions since inception in 2012

Target	Announced	Completed	Consideration ($m)	Detail
Amcom L7 Solutions	3/12/2015	17/03/2016	0.5	Cash
VTS Canberra	9/12/2016	9/12/2016	0.1	Cash
Ngage Technology Group	27/03/2017	5/04/2017	2.5	Scrip $1m and $1.5m cash. Cash funded by equity raise at 2c per share
Correct Communications	2/11/2017	23/11/2017	5.0	Scrip $2.4m and $2.6m cash over two tranches. Cash component funded by equity raise at 1.8c per share

Source: Company data, Veritas

Over-promising

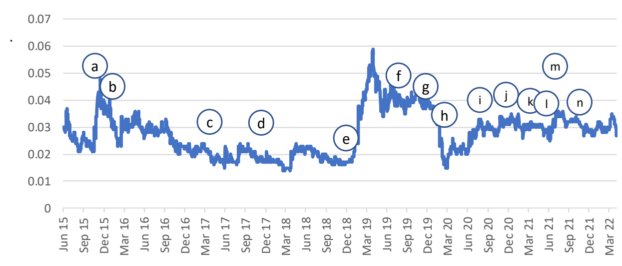
Optimistic guidance got the shares moving but caused a takeover attempt and management overhaul when it was not delivered.

Cirrus announced Matthew Sullivan would replace Frank Richmond as Managing Director on 12 February 2016 in recognition of the growing importance of services and Matt's experience as CEO of L7 Solutions from 2003 to 2011. Frank Richmond exited the company on 3 July 2017.

L7 Solutions was a turnaround situation, so its acquisition did not immediately impact group profits. Frank Richmond's sell-down also weighed on the share price, selling 40m shares in October 2017 (5% of the company) and 85m shares (11% of the company) in May 2018.

Optimistic guidance drove Cirrus' share price from 1.7c on 24 Jan 2019 before the publication of the 2Q19 Appendix 4C to 5.9c shortly after 1H19 results (Figure 7). The 1H19 investor presentation stated, "managed and professional services margin on track to cover all business overhead in 2020". This implied services gross profit of greater than $14.4m in FY20 given that total business overhead - defined as gross profit less EBITDA before share based payments - was $1.2m per month in 1H19.

Figure 7: Major events and the Cirrus share price ($ per share)



a. Dec 2015. L7 acquisition
b. Feb 2016. Matthew Sullivan replaces Frank Richmond as MD
c. Mar 2017. Ngage Technology acquisition
d. Nov 2017. Correct Communications acquisition
e. Feb 2019. 1H19 results. Guidance for services GP>opex in FY20
f. Jul 2019. FY19 results. FY20 guidance altered to be run-rate services GP>opex by end of FY20
g. Oct 2019 - abandons Services gross profit guidance.
h. Feb 2020. 1H20 results. Services gross profit $0.6m per month vs. $1.2m earlier guidance. FY20 guidance: revenue $100m, EBITDA $3.6-4.1m.
i. July 2020. FY20 results. Revenue $95m vs. $100m guidance and EBITDA $3.6m (bottom of range).
j. Nov - Dec 20. Andrew Milner sells 13.4m shares, Matthew Sullivan sells 3.8m shares.
k. Mar 2021: Signs biggest ever Managed Services contract with Geosciences Australia
l. Jun 21. FY21 results. EBITDA $2.0m vs. $4.2-4.6m guidance due to pandemic delays.
m. Jul 2021: WCG launches onmarket takeover bid
n. Sep - Dec 2021: Management and board overhaul

Source: Veritas estimates

We estimate that Services revenue of $50m would have been required to meet the guidance for higher Services gross profit than total overhead which is in line with the management's stated aspiration in 1H19 (Figure 8).

Figure 8: Management aspirations for FY20 as at 1H19 results

DESCRIPTION	FY16 (ACTUAL)	FY17 (ACTUAL)	FY18 (ACTUAL)	FY18 H1	FY19 H1	FY20 (ASPIRATION)
Revenue	$19m	$53.9m	$76m	$30.6m	$45.7m	$125m +
Locations	1	2	3	3	3	5 +
Staff	50	101	134	120	170	250 +
Cash from Operating Activity ($ '000)	(1,198)	(13)	1,309	(416)	564	Positive to EBITDA
Services Contribution as % of Margin	15%	29%	35%	32%	47%	50% +
Services Revenue (Prof & Managed)	$4m	$8m	$19m	$7.7m	$12m	$50m

2015 WA Product Focused — TO — 2020 National Services Focused

Source: Cirrus 1H19 results presentation

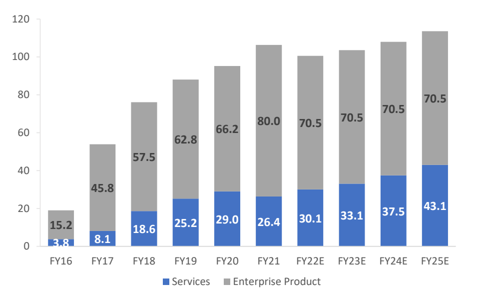
The guidance for services gross profit to exceed operating costs in FY20 was not achieved. A number of large tenders that were expected to land were delayed. In July 2019 management amended the guidance to being a run-rate services gross profit exceeding operating costs by the end of FY20. At the same time Paul Everingham was appointed as non-executive director to replace Patrick Glovac who was the last remaining director of Liberty Resources. The Services gross margin guidance was abandoned in October 2019.

Cirrus reported 1H20 results on 25 Feb 2020. Services gross profit was approximately half the guidance level at $0.6m per month. The shares closed at 2.3c on 26 February 2020, 23% lower than the 3.0c share price before the result. The extent to which the share price drop was due to lower-than-expected profit is difficult to establish given COVID travel bans commenced and ASX All Share index crashed at around the same time.

Cirrus reported Services revenue of $29m versus $50m management aspiration (Figure 9) and gross profit of $8.4m versus a $14.4m aspiration in FY20 (Figure 10). COVID did not help. Product sales (mostly IT hardware) were impacted by chip shortages and logistics bottlenecks.

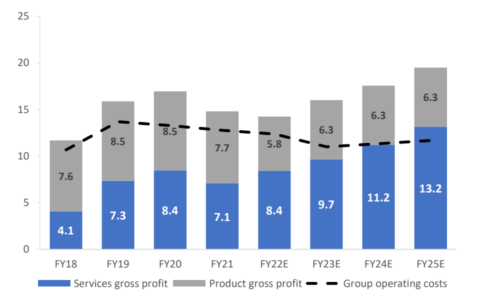
We forecast that gross profit from Services will match group overheads by FY24 due to a number of significant managed services contract wins – the recently awarded Icon and Geosciences contracts are estimated to generate $2m - $3m of incremental EBITDA versus FY21 and new management reducing overheads by 25%.

Figure 9: Cirrus revenue ($m)



Source: Company data, Veritas estimates

Figure 10: Cirrus gross profit vs. overheads ($m)



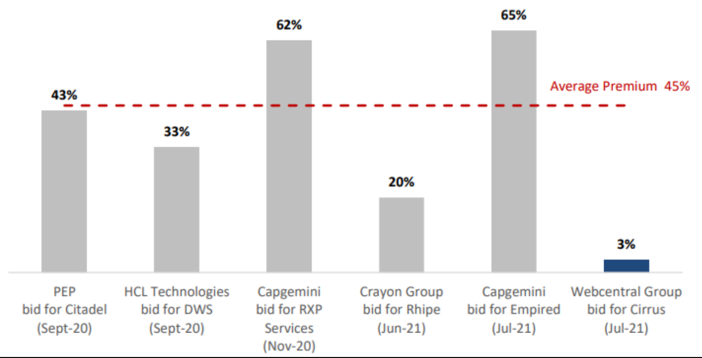
Source: Company data, Veritas estimates

Webcentral takeover offer a catalyst for positive change

The potential to improve margins motivated Webcentral to bid for Cirrus and functioned as a catalyst for new management to unlock shareholder value.

Webcentral (WCG.ASX, market capitalisation $84m as of 19 May 2022) announced an on market 3.2c per share cash hostile takeover offer for Cirrus on 30 July 2021, valuing the Company at $30m. The bid was at a 3% premium to the closing price immediately before the bid and a 12% premium to the 30-day VWAP, substantially lower than the 45% average closing price premium offered for similar IT Services companies (Figure 11). Webcentral disclosed an 8.9% stake in the company when the offer was announced.

Figure 11: Bid premium to closing price for recent transactions in the Australian IT Services sector (%)



Source: Cirrus 1H19 results presentation

Webcentral (WCG.ASX) is an internet domain registrar and web hosting company recently subject to a reverse takeover by 5G Networks (5GN.ASX, now delisted) controlled by Joe Demase as Managing Director and owner of 16% of the shares. 5G Networks is a telecommunications carrier offering telephony, broadband services and data centres which is now a Webcentral subsidiary following the RTO.

The operational synergies between Webcentral and Cirrus are not obvious as the companies are in different industries. We believe Webcentral's offer was motivated by a view that Cirrus is under-earning and the possibility of Webcentral selling its services to Cirrus's high calibre clientele.

> *"Webcentral management is focused and relentless in its pursuit of EBITDA for which it refuses to make apologies."*
>
> *A letter to Cirrus shareholders from Webcentral following the offer*

Our analysis of peer margins (page 13) suggests that Cirrus could earn 5-10% EBITDA margins with an appropriate margin mix and cost structure which would give EBITDA of $5-10m annually compared to $2m reported in FY21. Accordingly, we agree with Webcentral's central premise that Cirrus is under-earning but disagree that a takeover by Webcentral is needed to rectify this because:

1. *The Webcentral offer undervalues the company.* The independent experts report (link) indicated a fair value of 3.8 to 4.2c per share versus the 3.2c Webcentral offer price. Our DCF derived fair value is 7.0c per share.
2. *The offer triggered a management and board overhaul:* which we expect will drive a significant earnings inflection. We forecast underlying EBITDA will triple to $6.2m in FY24, mostly due to the contribution of Managed Service contract wins and the $4m cost reduction of October 21.
3. *A friendly merger with a direct competitor would have greater synergy potential:* A merger with a company that operates in the same market as Cirrus such as Atturra (ATA.ASX) or MOQ (MOQ.ASX) would create a scale player with >$175m of revenues – around the same size as Empired and ASG before they were acquired.

Board and management overhaul

The Webcentral takeover attempt triggered a board and management overhaul.

The Webcentral offer was a catalyst for positive change at Cirrus: it motivated action on improving profit margins.

The Cirrus board did not recommend Webcentral's offer. It considered the 3.2c offer price to be too low. On 17 August 2021 Webcentral lodged a notice under Section 249D of the Corporations Act to call an Extraordinary General Meeting with resolutions to remove all Cirrus directors apart from Paul Everingham (including Andrew Milner, Matthew Sullivan and Daniel Rohr) and to appoint Joe Demase and Michael Wilton, Webcentral executives, to the board.

During September 2021, Cirrus announced the promotion of longstanding executive Christopher McLaughlin to acting CEO after Matthew Sullivan took a leave of absence for personal reasons. Christopher McLaughlin was appointed Acting CEO on 1 October 2021 and Matt stepped down from the board altogether. Chris was instrumental in developing the Managed Services business including securing the Geosciences Australia, University of Western Australia and Peter MacCallum Cancer Centre client wins.

By the time the vote was held on 15 October Webcentral had managed to acquire 18% of the shares but failed to achieve a spill with only 42% of votes for the appointment of the Webcentral nominees.

Later that month, Cirrus announced further board changes, with long standing Chairman Andrew Milner, standing down after six years. Existing Independent Director Paul Everingham became non-executive chairman. Cirrus announced the appointment of Adam Waterworth as non-executive Director in late December 2021.

A 25% reduction in operating costs and improving execution

New management lowered operating costs by 25% in October 2021.

The first action of the new board and management was to conduct a comprehensive review and restructure of the business led by Chris McLaughlin. The review led to:

- *A 25% reduction in overhead:* The company reported $2.85m of overhead in 2Q22 (post restructure) versus $3.78m in 1Q21 (pre-restructure) in its 1H22 investor presentation – a cost reduction of $4m on an annualised basis (4% of revenue). We forecast overhead should remain in the $11-12m range over FY23-FY25 with costs to fund growth incurred within gross profit. Oracle NetSuite, implemented in late FY19, gives management better visibility on profitability and control over costs than the previous ERP and Accounting systems now that it has sufficient historical comparative data.
- *Cutting fat, not muscle:* The cost reduction was achieved without the removal of frontline software engineers and Services salespeople. The overall headcount of full-time equivalent employees declined from 205 to 168 post-restructure while the number of employees in Managed Services increased due to contract wins. Most of the savings came from flattening the management structure and adopting a national rather than state-based hierarchy.
- *Focusing the business on Services*: The new organisational structure was built to reward growth in Services over Product. Management and the board are working on a revised incentive structure that links KPI's at all levels with sustainable profit growth and shareholder value over the long term.

The ingredients for success

Cirrus is leveraged to the rapid growth of the Australian IT Services sector and should gain market share due to a similar market positioning to former middle-market leaders.

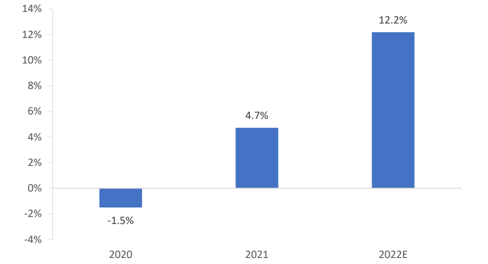
IT services sector is growing rapidly

Cirrus has less than 0.1% share of the $41.5bn market.

Growth in spending on IT Services in Australia is accelerating from 5% YoY in 2021 to 12% YoY (Figure 12) in 2022 to reach $41.5bn (Figure 13) driven to a structural shift toward IT outsourcing by corporates and Governments.

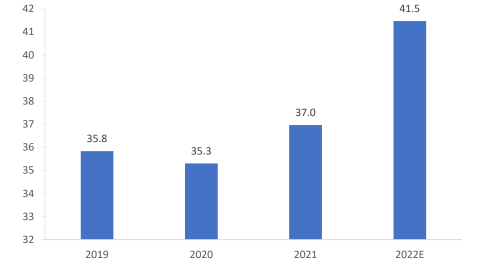
Cirrus, with forecast Services revenue of $30m in FY22, has less than 0.1% share of the addressable Services market. The Australian Government – Cirrus' biggest client - is forecast to spend $6.4bn on IT Services in 2022 according to Statista.

Figure 12: Growth in spending on IT Services in Australia (% YoY)



Source: Gartner, Lonergan and Edwards Experts Report, Veritas

Figure 13: Spending on IT Services in Australia ($bn)



Source: Gartner, Lonergan and Edwards Experts Report, Veritas

Cirrus positioned to gain market share

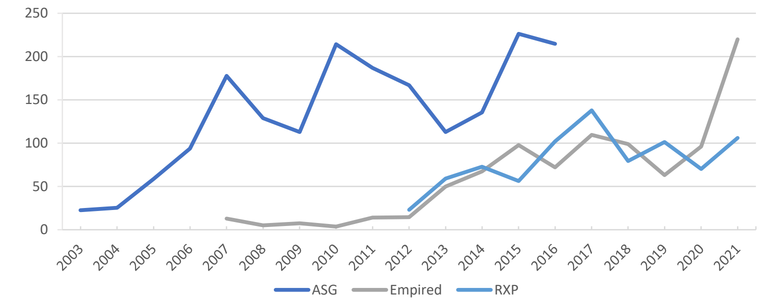
Mid-market IT services companies have created considerable shareholder value. The acquisition of these companies by foreign multinationals is a substantial opportunity for Cirrus.

Locally owned mid-tier players, including Cirrus, ASG, Empired and RXP, have historically been the highest growth segment of the Australian IT services market, which we attribute to:

- Greater agility and customer service levels than foreign owned multinationals such as IBM, Tata, Accenture, Deloitte, Cognizant and Capgemini.
- Lower prices than foreign owned multinationals.
- Australian ownership – preferred by Government for security and local capability reasons.
- Superior capability to SME's which are typically constrained by expertise and geography.
- Ability to acquire niche competitors.

ASG, Empired and RXP saw 9x, 17x and 4x increases in their enterprise values from listing until being acquired by foreign multinationals (Figure 14). ASG was acquired by Nomura Research Institute for an enterprise value of $348m in September 2016. Empired and RXP were acquired by Capgemini for $233m and $106m in November 2020 and July 2021, respectively.

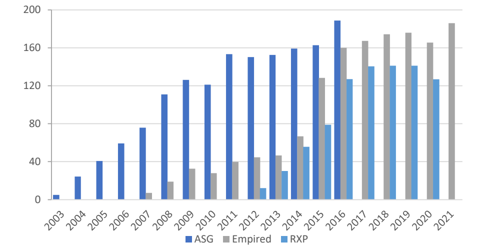
Figure 14: Enterprise values of listed Cirrus competitors that were acquired ($m)



Source: FactSet, Veritas.

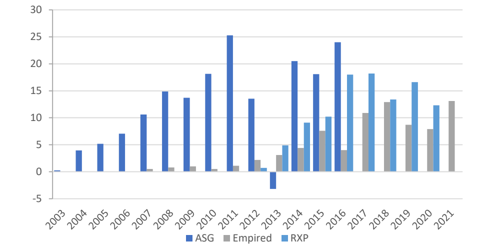
It is notable that ASG, Empired and RXP were acquired after revenue and EBITDA surpassed $120m and $10m respectively - levels that we believe Cirrus is capable of achieving organically. Empired and RXP saw an inflection in profitability after surpassing $30m of services revenue – typically the scale at which providers are taken seriously by enterprise clients according to our discussions with industry experts. We forecast Cirrus will achieve $30m of Services revenue in FY22.

Figure 15: Revenues of mid-tier Australian IT Service providers ($m)



Source: Company data, Veritas estimates

Figure 16: EBITDA of mid-tier Australian IT service providers ($m)



Source: Company data, Veritas estimates

Cirrus should gain market share for the same reasons as Empired and ASG including it being:

- Big enough to win large Government contracts but small enough to be nimble.
- Australian owned – making it eligible for sensitive Australian Government contracts.
- Affordable – Cirrus charges less than multinational competitors for the same services according to our analysis of tenders awarded by the Australian Government. For example, Cirrus is charging $4.3m per year to provide managed services to Geosciences Australia versus DXC Technology which charged $6.7m per year over the five years to May 2021.
- Capable - Contracts with the government and corporates require reference customers, security clearance and proof of capability. Cirrus meets these criteria.

The acquisition of competitors leaves a gap in the market

The acquisition of the leading mid-market players by foreign multinationals is a factor in Cirrus winning bigger contracts.

The IT services middle market is attractive because the contracts are often too small to be meaningful for the multinationals and too large for the capabilities of SME's. The sheer number of acquisitions in the space is evidence of its attractiveness and demonstrates the reliance of multinationals on M&A for growth (Figure 17).

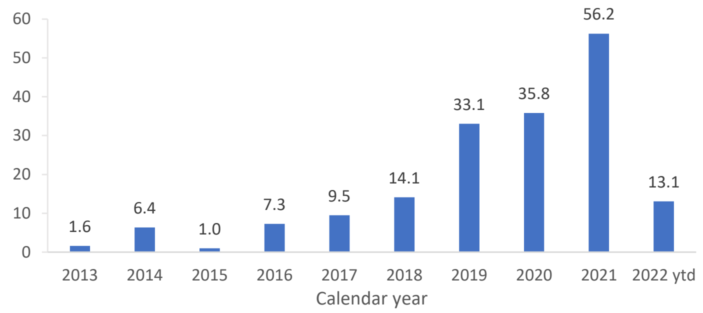
Figure 17: Recent transactions in the IT Services sector ($m)

Date	Target	Acquirer	Interest (%)	Enterprise Value ($m)	EBITDA multiples (x)
Jul-21	Empired	Capgemini	100%	233	9.6 F
Mar-21	Secure Logic	Tesserent	100%	22	5.3 H
Dec-20	Intalock	Spirit Technology Solutions	100%	19	8.2 H
Nov-20	RXP Services	Capgemini	100%	106	7.6 F
Oct-20	Digital Sense	Over the Wire	100%	33	6.1 H
Sep-20	DWS	HCL Technologies	100%	200	7.7 H
Sep-20	Citadel Services	Pacific Equity Partners	100%	-	7.0 F
Oct-18	Comlinx	Over the Wire	100%	21	6.4 H
Jun-18	Project Assured	DWS	100%	37	5.5 H
Jan-18	Bulletproof	AC3	100%	28	6.2 H
Aug-17	The Works	RXP Services	100%	33	6.4 F
May-17	SMS Management & Technology	Nomura Research Institute	100%	132	14.2 H
May-17	WME Group	Melbourne IT	100%	39	5.6 F
Sep-16	ASG Group	Nomura Research Institute	100%	348	10.6 F
Oct-15	UXC	CSC	100%	470	9.9 F
Aug-15	Phoneix IT&T Consulting	DWS	75%	26	5.2 F
Jun-15	Outware Mobile	Melbourne IT	100%	67	8.6 F
Aug-14	Oakton	Dimension Data Holdings	100%	171	10.6 F
Average					**7.8**

Source: FactSet, Veritas.

Cirrus is winning more Government contracts than ever before according to our analysis of Australian Government disclosures on AusTender (link). It is important to note that the contracts awarded are often multi-year in duration meaning revenues will be recognised over subsequent periods. It is also important to note that the $13.1m value of contracts awarded in calendar 2022 year to date is 35% higher than in the comparative period of 2021. The data includes Australian Federal Government departments only and does not include major clients such as Icon Water and the ACT Government.

Figure 18: Total value of contracts awarded to Cirrus Networks by the Australian Government ($m)



Source: Australian Government disclosure on tenders.gov.au, Veritas. Data extracted on 6 May 2022.

Icon and Geosciences Australia contracts to add an estimated $2-3m EBITDA

The Icon Water and Geosciences Australia contracts should add $2-3m EBITDA per year with further potential from contract extensions and upselling.

Cirrus was recently awarded two of the biggest Managed Services contracts in its history: Icon Water and Geosciences Australia which are worth $15m and $13m respectively according to ASX filings on 4 April 2022 and 12 March 2021. Both contracts have three-year terms with options to extend.

We estimate that the Managed Service component of the two contracts will yield annually recurring revenue (ARR) of $6-8m and incremental annually recurring EBITDA of $2-3m. The managed service contribution of Geosciences should commence from the beginning of FY22 and Icon Water from midway through FY23.There will be Professional Services and Product revenue in the meantime. There could be upside to the revenue and profits from these contracts due to:

- *Contract extensions*: Satisfactory performance should lead to contract renewals. Cirrus won the contract to provide Managed Services for Geosciences Australia from multinational competitor DXC Technology. DXC Technology was awarded a $33.7m contract to provide Managed Services to Geosciences Australia over the five years until 19 May 2021 (revised upward from an original contract value of $22.6m, see link). DXC charged 56% more than Cirrus on an annual basis for the service.

- *Upselling:* DXC Technology was awarded $14m of additional contracts by Geosciences Australia, mostly for consultancy and hardware upgrades, between July 2016 and March 2021 according to our analysis of Australian Government tenders. Any similar ad-hoc work should go to Cirrus now that it is the managed service provider. Cirrus announced an additional $4.5m contract from Geosciences Australia, to upgrade storage servers, on 27 January 2022.

The opening of Cirrus' Network Operations Centre (NOC) in Canberra in early 2021 was an important factor in these contracts being awarded to Cirrus. Cirrus' NOC houses a centralised team that continually monitors the performance and health of client networks, hardware and software with a helpdesk. Cirrus is one of a handful of IT Services companies to have a NOC in Canberra with the requisite security clearances. The trusted status of Cirrus is demonstrated by winning contracts from the Australian Signals Directorate; Department of Education, Skills and Employment; Department of Home Affairs; Department of Defence and the Australian Taxation Office during 2022.

Additional contract wins could flow from Cirrus' unique NOC proposition. The Australian Government requests tenders for an estimated six to ten managed services contracts per year of an equivalent size to Icon which would yield $7.5m - $12.5m of incremental EBITDA to Cirrus if it won them all.

Cirrus' NOC capabilities and Australian ownership leave it better positioned to win these tenders than in the past, especially since many of its former competitors in the mid-market space are now subsidiaries of foreign owned multi-nationals.

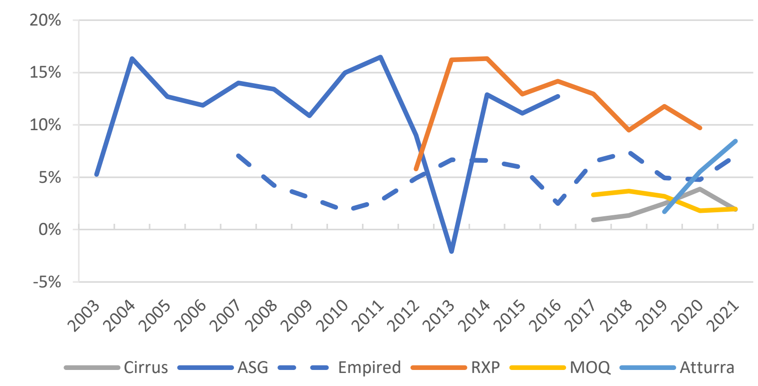
Cirrus is under-earning relative to peers

Cirrus' EBITDA margin is lower than the 8% industry average.

A comparison of EBITDA margins with competitors suggests Cirrus is under-earning. Cirrus' underlying EBITDA margin was 3.9% in FY20 and 1.9% in FY21 excluding JobKeeper. Competitors typically have EBITDA margins in the 5-15% range (Figure 19). Atturra management have a medium term EBIT margin guidance of c9% according to its 1H22 presentation.

Cirrus' historically lower margins can be explained by Product representing a greater proportion of sales and having higher overheads relative to gross profit. Margins should lift due to an increasing proportion of Services and the $4m cost reduction that occurred in October 2021.

Figure 19: Underlying EBITDA margin Cirrus competitors (excluding JobKeeper) (%)



Source: Companies, Veritas

EBITDA to triple by FY24

Cost savings and the contribution from managed services contract wins explain our forecast for a tripling of EBITDA to $6.2m in FY24.

The 25% reduction in operating costs and a shift toward the higher margin Services division underpins our forecasts for a tripling of EBITDA to $6.2m in FY24 versus $2.0m in FY21 excluding exceptional items and share based payments.

Services are the main growth driver: We forecast Services revenue will rise from $26.4m in FY21 to $37.5m in FY24 due mostly to the contribution from Icon Water and Geosciences Australia contracts announced on 4 April 2022 and 12 March 2021, respectively.

Enterprise Product revenues to remain stable: We forecast negligible revenue growth in this segment due to management de-emphasis. Product sales are low margin and have been a large contributor to the previous management failing to meet guidance. Cirrus recognises product revenue on delivery rather than when a purchase order is placed. Currently the company has an order backlog (firm client orders that are yet to be delivered) that is significantly higher than pre-COVID. The increase in backlog was the main contributor to product revenues declining by 26% YoY in 1H22. Importantly, there was no drop off in orders over FY22 year-to-date, suggesting no underlying issues with demand. A reduction in the backlog may result in additional revenue.

Gross margins to rise due to mix: We forecast group gross profit margin rises from 13.9% in FY21 to 16.3% in FY24 due to mix. The gross margins of each segment are expected to remain stable with Product at 9.0%, Professional Services at 22.5% and Managed Services at 35.0% in FY23 and FY24. Services will comprise 64% of total gross profit in FY24 versus 48% in FY21.

EBITDA to triple on cost savings and gross margin mix: $4m of cost savings due to the October 2021 restructure and $2-3m estimated contribution from the Icon and Geosciences contracts (relative to FY21) underpin our forecasts for $2.2m EBITDA in 2H22, $5m in FY23 and $6.2m in FY24.

Net profit to rise on operating leverage: We forecast underlying profit after tax of $0.3m in FY22 rising to $3.4m in FY23 and $4.4m in FY24 due to primarily to the improvement in EBITDA margins. It is also important to note that the company has a $4m deferred tax asset which we expect to be used in order to reduce the corporate tax rate to zero over FY22-FY24.

Capex to rise slightly: We forecast capex to increase slightly from $0.6m in FY22 to $1.0m in FY24.

Net cash to build to >50% of the market capitalisation: Cirrus has maintained a cash balance of $5m to $7m since FY18 due to consistently positive free cash flows. The company has no debt except finance leases relating to offices. We forecast the cash balance will build from $9m in FY22 to $16.7m in FY24 – more than half of the current market capitalisation – due to the inflection in margins and the unwind of adverse COVID impacts on working capital.

Dividends not forecast, but possible: We currently do not forecast any dividends as we see bolt-on acquisitions using surplus cash as a more efficient allocation of capital. We do not forecast any acquisitions as timing and quantum is unknown. We view a dividend payout of ratio of 50% as sustainable. Such a ratio would give a dividend of 0.23c per share and a yield of 7.0% in FY24.

A revitalised board and management

Chairman Paul Everingham is the steady pair of hands needed to navigate the unsolicited takeover attempt and restructure.

Cirrus Chairman, Paul Everingham has held numerous senior executive roles in business and government. Paul is currently the CEO of the Chamber of Minerals & Energy of Western Australia. Prior roles include Chief Executive of Marketforce Australia, Managing Director of GRA Everingham Advisory and Executive Director of the Liberal Party of Australia (WA branch) following an extensive career in the Australian Treasury.

The board promoted Chris McLaughlin to Managing Director in October 2021 after playing an integral role in securing Managed Services contracts.

Christopher McLaughlin was appointed Managing Director in October 2021, after four years in the role of COO. Chris has more than 20 years' experience in management and technology, including the past 10 years in senior executive roles at rapidly growing IT businesses. Previous roles include COO of DBM Vircon and various management positions at L7 Solutions. Chris was integral in securing the Icon and Geosciences Australia managed services contracts.

Non-Executive Director Daniel Rohr is the longest serving member on the board. He joined the Cirrus board in July 2015 with expertise in corporate advisory and accounting. He is also the CFO of HealthEngine, a marketplace for booking doctors appointments, which has raised more than $50m from venture capital investors including Sequoia (an early backer of Google, Airbnb and WhatsApp).

Adam Waterworth became a Non-Executive Director of Cirrus in December 2021. Adam previously worked as Fund Manager at Packer & Co from 2012-2021 and an investment analyst at Lazard Asset Management prior to that. Adam is a top three shareholder with nearly 50m shares (5.4% of total)

Matthew Green has been Cirrus CFO since August 2015. Matt is a Chartered Accountant with over 20 years of combined commercial and financial experience holding senior roles across multiple sectors. Prior to Cirrus, he held senior roles at Tenix (acquired by Downer), Group Financial Controller at ASX listed mining partner Macmahon Holdings (ASX: MAH), GM of Finance at Worley Parsons 2002-2008 and in audit at Price Waterhouse Cooper. Matt Green holds over 36m shares (3.9% of total).

Fair value of 7c per share

Our DCF derived value for Cirrus Networks is 7c per share (Figure 20). The primary assumptions of the DCF include revenue growth fading to 1%, a terminal EBITDA margin of 6% which at the bottom end of the 5-15% range of peers, terminal capex to deprecation of 1.0x and a WACC of 8%.

Figure 20: DCF valuation for Cirrus Networks

Year end July	Units	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	TV
Revenue	**$m**	**100.6**	**103.6**	**108.0**	**113.6**	**118.1**	**122.8**	**126.5**	**130.3**	**132.9**	**135.6**	**136.9**
Revenue growth	*%*	*-5.4*	*2.9*	*4.3*	*5.1*	*4.0*	*4.0*	*3.0*	*3.0*	*2.0*	*2.0*	*1.0*
EBITDA	**$m**	**1.9**	**5.0**	**6.2**	**7.8**	**7.1**	**7.4**	**7.6**	**7.8**	**8.0**	**8.1**	**8.2**
EBITDA margin	*%*	*1.9*	*4.8*	*5.8*	*6.9*	*6.0*	*6.0*	*6.0*	*6.0*	*6.0*	*6.0*	*6.0*
EBIT	**$m**	**0.4**	**3.5**	**4.5**	**6.0**	**5.3**	**5.5**	**5.7**	**5.9**	**6.0**	**6.1**	**6.2**
Tax rate	*%*	*0.0*	*0.0*	*0.0*	*5.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*
NOPAT	**$m**	**0.4**	**3.5**	**4.5**	**5.7**	**3.7**	**3.9**	**4.0**	**4.1**	**4.2**	**4.3**	**4.3**
DA	$m	1.5	1.5	1.8	1.9	1.8	1.8	1.9	2.0	2.0	2.0	2.1
Margin	*%*	*1.5%*	*1.5%*	*1.6%*	*1.7%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Working capital	$m	1.1	-0.4	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Capex	$m	-0.6	-0.7	-1.0	-1.2	-1.4	-1.5	-1.9	-2.0	-2.0	-2.0	-2.1
Capex/D&A	*x*	*0.4*	*0.5*	*0.6*	*0.6*	*0.8*	*0.8*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
FCF	**$m**	**2.4**	**3.9**	**5.4**	**6.6**	**4.2**	**4.4**	**4.1**	**4.2**	**4.3**	**4.4**	**4.4**
Discount factor	%	93%	86%	79%	74%	68%	63%	58%	54%	50%	46%	
NPV of FCF	**$m**	**2.2**	**3.3**	**4.3**	**4.8**	**2.9**	**2.8**	**2.4**	**2.3**	**2.1**	**2.0**	

Item	Units	Value
NPV of the forecast period	$m	29.1
NPV of terminal value	$m	31.0
NPV of cash flows	**$m**	**60.1**
Net cash (inc. leases) @ 1H22	$m	4.6
Fair value of equity	**$m**	**64.7**
Fair value of equity per share	**$ps**	**0.070**
Share count	m	930.0

Item	Units	Value
WACC	%	8.0
Terminal growth	%	1.5
Terminal EBITDA margin	%	6.0
Terminal value nominal	$m	67
Terminal EV/EBITDA	x	8.2
Terminal EV/NOPAT	x	15.5

Source: Veritas estimates

A 37% EV/EBITDA discount to peers in FY24

Cirrus currently trades on an EV/EBITDA multiple of 4.0x in FY24, a 37% discount to the 6.4x peer average (Figure 21) and a 48% discount to the 7.8x average of transaction in the sector (Figure 17).

Figure 21: Cirrus Networks valuation versus listed peers

Stock	Code	Price	Mkt Cap	EV	EV/Revenue (x)				EV/EBITDA(x)				Revenue Growth (%)			
		$m	$m	$m	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Cirrus Networks	CNW-ASX	0.032	30	25	0.2	0.3	0.2	0.2	12.3	13.4	5.0	4.0	11.7	-5.4	2.9	4.3
Data#3 Limited.	DTL-ASX	5.00	772	594	0.3	0.3	0.2	0.2	13.7	11.6	10.1	9.4	20.3	15.3	12.4	9.7
Cosol Limited	COS-ASX	0.56	79	78	2.3	1.5	1.2		13.3	8.5	6.2		187.8	49.5	24.3	
Atturra Limited	ATA-ASX	0.735	147	120	1.2	0.9	0.7	0.6	14.5	8.3	6.9	6.0	29.3	33.0	29.2	11.3
Integrated Research Limited	IRI-ASX	0.595	103	104	1.3	1.4	1.3	1.2	4.7	7.0	4.9	3.8	-29.2	-7.8	9.3	9.6
Peer average					**1.3**	**1.0**	**0.9**	**0.7**	**11.6**	**8.8**	**7.0**	**6.4**	**52.0**	**22.5**	**18.8**	**10.2**

Source: FactSet consensus as of market close on 24 May 2022, Veritas estimates for Cirrus.

Our fair value of 7c per share puts the stock on an EV/EBITDA multiple of 10x in FY24, in line with the takeout multiples of Empired (9.6x) and ASG (10.6x). Sustained bid speculation should limit downside in the shares. The Geosciences Australia and Icon Water contracts alone could be worth nearly the entire current market capitalisation (i.e. $20m - $30m valuation applying a 10x EBITDA multiple), illustrating the optionality on additional contract wins.

RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

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Veritas Securities Limited
A.B.N. 94 117 124 535
AFSL No. 297 043
GPO Box 4877, Sydney, NSW, 2001
www.veritassecurities.com.au

Sydney
Level 4, 175 Macquarie Street
Sydney, NSW, 2000
Tel: (02) 8252 3200
Fax: (02) 8252 3299

Melbourne
Level 8, 350 Collins Street
Melbourne, VIC, 3000
Tel: (03) 8601 1196
Fax: (03) 8601 1180